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ABSTRACT

This document consists of a two-part report that was developed as part of a project to develop a national workforce development (WfD) system to ensure that people in the United Kingdom develop the basic, intermediate, and other skills needed in the 21st century. The first report sets out proposals for a more demand-led system that places skill development firmly in the context of wider business needs and gives employers and employees a central role in determining the nature of provision. The report examines the following topics: the importance of WfD; factors impeding WfD; raising demand; meeting demand with high-quality WfD provision; developing a government framework to support WfD; and implementing the framework. The first report includes 55 figures/boxes and 12 appendixes, including a description of the methodology used to develop the policy statement and action plan, list of organizations and people consulted, glossary, 70-item bibliography, performance targets, and 312 suggestions for further reading. The second report presents a comprehensive action plan for WfD in England to 2010 that details the steps England's government will take in the following areas: raising informed demand; improving supply; and developing the right government framework. The following items are appended to the second report: the action plan; a glossary; an 18-item bibliography; and a discussion of sources of further information. (MN)

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In Demand

Adult skills in the 21st century

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A PERFORMANCE AND INNOVATION UNIT REPORT – DECEMBER 2001

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FOREWORD BY THE PRIME MINISTER

British industries employ some of the most highly skilled people in the world. But today, as in the past, too many employees in too many industries are missing out on opportunities to make the most of their talents. Above all, 7 million adults lack basic skills. Another 6 million lack the intermediate skills that are vital for advancing their careers.

In the long run, schools must play the central role in preparing people better for work and careers. But better strategies for workforce development can complement the work of the educational system.

Britain has a poor track record in this area. Policy in the past has led to too many small initiatives, a lack of clarity about objectives which confuses employers and employees alike, and too much institutional tinkering. What we now need instead is a much more coherent approach – helping firms to adapt to increasingly competitive markets and helping individuals to update existing skills and learn new ones, rather than seeing education as something that happens just once.

We have already made a lot of progress: raising standards in schools; increasing participation in higher education; advancing Investors in People; and establishing **learndirect**. In parallel there have been significant institutional changes with the establishment of the Learning and Skills Council, the Regional Development Agencies, the University for Industry and the Small Business Service. Good work has also been done on thinking through how we can do better. Last year the National Skills Task Force set out a bold series of recommendations for modernising the education and training system.

To ensure that this work comes together in a strategic framework, developed in consultation with all the key public and private sector partners, I commissioned the PIU to develop a national strategy for raising our game over the next decade. This report recommends a radically different strategy for skills. It proposes a much more demand-led system, in which the demands of employers and employees determine the provision of development, and assesses a number of policy measures to take this agenda forward.

I have now asked the PIU, in close collaboration with DfES, DTI, DWP and Treasury, to take this work forward by developing a detailed action plan setting out agreed policy which will be published in the summer of 2002 alongside the Spending Review. This report will set out Government's response to the skills challenge. But this must be a partnership. To achieve the vision of a prosperous and inclusive Britain will involve millions of citizens seeing continuous development as crucial to their own ambitions, and hundreds of thousands of businesses putting it at the heart of their strategies for growth.

Tony Blair

Tony Blair
Prime Minister

1. EXECUTIVE SUMMARY

Our vision:

"In 2010, the UK will be a society where Government, employers and individuals actively engage in skills development to deliver sustainable economic success for all."

Key points

- Workforce development (WfD) can help to raise labour productivity and increase social inclusion. Higher skilled workers are more productive, more innovative and better able to adapt.
- A relatively high proportion of the UK population of working age lacks basic and intermediate skills. A particular problem is the large number of low skilled adults in the workforce. Though levels of attainment of young, new entrants to the labour market have been rising, they are not keeping pace with those of other industrialised countries.
- The benefits of education and training are, in large part, captured by individuals through increased earnings and by firms through increased productivity. But the benefits for society as a whole can outweigh individual benefits at lower skill levels since numeracy, literacy and other key skills, such as communication and IT skills, contribute generally to economic performance.
- Without basic skills – literacy and numeracy – individuals cannot start to develop a career path and may be trapped in a low pay/no pay cycle. Once on the development ladder, the chances of individuals accessing further training and moving on to better jobs are increased but the personal benefits in higher earnings are still relatively low up to a level 2 (five GCSEs A*–C or vocational equivalent).
- Tackling basic skills must be the top priority. However, the report argues that the Government's long term aim should be to ensure that all adults have the opportunity to achieve a level 2 qualification.
- In the longer term, change must focus on:
  - raising the demand for WfD from both employers and individuals, through the development of a demand-led system based on: empowering individuals and employers to increase their demand for WfD by, for example considering placing purchasing power directly in their hands; helping employers, particularly small employers, to develop business strategies that drive up demand for WfD; and tackling the barriers of time and money that prevent individuals taking up opportunities; and
  - increasing the supply of high quality WfD, which is responsive to the needs of both individuals and businesses, through capacity building and comprehensive audit and inspection procedures.

- Government's role should be to support this demand-led system – with appropriate incentives and safeguards. It is important that the main departments involved (Department for Work and Pensions (DWP); Department for Education and Skills (DfES); and Department of Trade and Industry (DTI)) and the Learning and Skills Council (LSC) share a common vision of the aims of WfD policy. This framework must be supported by:
  - excellent Labour Market Information (LMI) to enable employers, individuals and providers to make informed decisions;
  - sufficient funding flexibility to meet the needs of different local labour markets; and
  - a more flexible qualifications system.
- Responsibility for investing in training lies with the individual, business and Government. We propose that Government considers what else it can do to contribute to increasing development opportunities for those in or seeking work. The report considers a range of financial incentives, including both public expenditure and tax incentives.
- This report proposes principles that should underpin future WfD policy and various elements of the strategy for implementing them. In the coming months, the Performance and Innovation Unit (PIU) will consult widely within Government and beyond on the merits of specific proposals. Taking account of the Pre-Budget Report, the Budget Report and the outcome of the 2002 Spending Review, these will be published in a second PIU report.

This is a report to the Government about WfD. It is not a statement of Government policy. We welcome views from interested parties on the arguments and proposals set out below.

What is WfD?

1. WfD is a relatively new term for training and skills development. It sits between training (which has a narrow focus) and education (which is broad), and is firmly grounded in business need. The PIU has adopted the following definition:

"Workforce development consists of activities which increase the capacity of individuals to participate effectively in the workplace, thereby improving their productivity and employability."

WfD is vital to raising labour productivity and to increasing social inclusion

2. UK labour productivity currently lags behind that of other major industrialised countries. There are a number of reasons for this, including the comparatively poor level of skills and the interaction between low skills and low investment. 36% of working age adults in the UK, over 13 million people, lack basic school-leaving qualifications.[1]

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[1] The UK figure is for 2001 – more recent data is not available for comparison but 1999 figures were 28% in France and 17% in Germany. International figures – *Skills for all*, NSTF. UK figure – Labour Force Survey, UK, Spring 2001.

3. Skills need to be improved because:

- higher skills contribute to higher productivity;
- low skilled individuals can be caught in a vicious circle of low pay/no pay. They are also less likely to progress in work as employer funded development tends to be focused on the more highly qualified. This contributes to social exclusion; and
- a highly skilled workforce is more innovative and much better able to adapt to the demands of a changing economy.

4. Tackling basic skills must be the top priority. However, the Government's long term aim is that all adults should have the opportunity to achieve a level 2 qualification (i.e. five A*–C GCSEs or their vocational equivalent). Above level 2, private returns provide a greater incentive for individuals and employers to invest in skills. So, gaining skills at level 2 allows individuals to make progress at work.

A range of economic, social and cultural factors lie behind the UK's failings in WfD

5. Firms and individuals in the UK do invest substantially in training and development but there are market failures or other barriers that may limit their investment:

- The returns to development are uncertain and often only become apparent in the long term. This is a particular problem for small firms focused on maintaining short term cash flow.
- There are a range of information failures that may make it difficult for individuals and firms to identify WfD opportunities of the right kind and quality to meet their needs. Information, advice and guidance (IAG) services and LMI are therefore important.
- WfD may benefit society as a whole, even where the private returns to individuals or firms are low or zero – such a divergence between social and private returns is likely to lead to underinvestment.
- Firms can free ride on other firms' training by recruiting ready trained workers. Evidence is mixed on whether this happens frequently or not, but it is clear that fear of 'poaching' is a significant barrier to investment in WfD, particularly for smaller firms.
- There are barriers to participation for individuals and firms, primarily relating to time and money. For individuals with low skills, motivation is another important barrier which can be difficult to overcome.
- UK employer networks and institutions are weak, limiting opportunities for information sharing, best practice and collaboration.
- The competitive strategy of many firms is based on a low cost/low added value approach. Such firms are unlikely to see any benefit in upskilling their workers. In some cases this may result in what is referred to as a low skill/low wage equilibrium in which neither employees nor employers demand higher levels of skill.

6. Government failures and cultural issues compound these market failures and other barriers: institutional structures and Government funding systems are overcomplicated and are frequently changed. This leads to confusion and disengagement by employers and individuals, reinforcing a culture which undervalues development.

7. Significant progress has been made: young, new entrants to the labour market are becoming more qualified over time. But so are young people in other countries. We need to close this gap and keep pace with improvements elsewhere.

Tackling these failings requires a clear vision

8. Our vision is that:

"In 2010, the UK will be a society where Government, employers and individuals actively engage in skills development to deliver sustainable economic success for all."

An integrated package of measures is needed to realise this vision

9. Realising this vision requires three main elements to be put in place: measures to stimulate demand; measures to increase the quality and responsiveness of supply; and a Government framework conducive to these.

A demand-led system is central to achieving change

10. A demand-led system is one in which the demands of individuals and employers rather than providers shape the type and quantity of WfD provision that is available. Such a system offers the best combination of responsiveness to the needs of the labour market and cost effectiveness. The crucial step for the delivery of this system is to increase the demand for WfD, for example by putting purchasing power in the hands of individuals and employers.

Stimulating employer demand

11. For employers, development is a derived need. They do it to enable them to achieve other objectives, notably to make a profit or deliver services. The best way to increase employer demand is by helping employers to rethink their business and organisational strategies around more ambitious goals. Firms with low cost/low added value market strategies have little reason to value development. Organisations that resist changing their working practices find making improvements harder and harder as the gap between what they do and best practice widens.

12. Business support services have an important role to play but have not sufficiently integrated WfD into their thinking, and are in many cases failing to reach their target audience. The DTI's ongoing review of business support and the Treasury's current cross-cutting review of business support for small businesses will, in due course, need to recognise and build upon the crucial relationship between business support and WfD.

13. Services need to integrate support for WfD and business development, even where funded by different departments. A particular area for support should be management and leadership skills, which are weak in the UK.

14. Networks and benchmarking are important, as peer advice and opinion are seen as more credible than government advice. The new network of Sector Skills Councils (SSCs) has the potential to make a significant impact – not just in supporting skills but in promoting best practice within sectors and hence driving up demand.

Stimulating individual demand

15. Individual demand can be stimulated by promoting the benefits of WfD, removing practical barriers and providing better IAG services.

16. Trusted intermediaries tend to be the most effective source of encouragement and information. Expanding the number of informal advisers in the workplace would help engage those who are currently underengaged in WfD.

17. IAG systems for individuals have improved considerably, but further improvement is necessary to support a demand-led system. Services need to be more joined up, more accessible and more transparent. Those groups most in need of IAG should be carefully identified, and mechanisms for targeting them put in place.

18. Tuition fees and other costs are potential barriers to WfD and may require support from Government. Lack of time is another barrier frequently cited by low skilled individuals. A range of options could be considered to address this barrier, including a more formalised statutory approach. But this would be a fundamental change requiring careful consideration, a regulatory impact assessment and wide consultation, particularly amongst employers. Finally, embarrassment at lack of basic skills and low motivation may be key barriers to WfD.

19. There are a number of different mechanisms which could be effective at increasing individual demand; for example, placing more purchasing power in the hands of individuals. One option would be a form of individual learning account.

Increasing capacity on the supply side and raising quality

20. In order to deliver high quality WfD in a demand-led system, providers need to constantly update their services to meet the changing needs of the labour markets in which they operate. Some providers, particularly small community based providers, may need help to achieve this, especially in terms of their ability to use and exploit technology. However, in a demand-led system, private providers, voluntary sector providers and companies' in-house training facilities should be able to compete with public sector providers such as further education (FE) colleges, based on the quality and value for money of the service they provide.

21. The LSC has produced a strategy for quality which aims to ensure that all providers reach a satisfactory level of provision. Building on this strategy will require the promotion of improved development opportunities for the staff employed by training providers; consistent quality standards; and customers who are well informed about quality standards. There is a case for giving inspectors or the LSC greater power to sanction providers who fail to meet quality standards.

This package of measures needs to be underpinned by a clear Government framework

22. Government's role is to put in place a demand-led system that is supported by appropriate incentives and safeguards. It is important that the main departments involved (DWP, DfES and DTI) share a common vision of the aims of WfD policy. They should therefore share outcome targets and develop a framework of accountability for delivering them.

23. In a demand-led system, excellent LMI is essential to help learners, providers, employers and Government make decisions. A single co-ordinator should oversee the collation, interpretation and dissemination of LMI.

24. A demand-led system requires flexibility to meet the needs of different local labour markets. The LSC could consider introducing a new funding regime based on desired outcomes at national and local level within the appropriate regional economic strategy. More discretion over budgets at local level might encourage responsiveness to the diverse local needs of both the consumers of WfD and providers.

25. In order to support a demand-led system and to respond to rapid changes in the

workplace, more flexibility is needed in the qualifications system. The process for developing and approving National Occupational Standards and new qualifications needs to become faster and more responsive. A credit-based system in which individuals can build up to a full qualification over time could help individuals and employers tailor qualifications more to their needs.

Next steps

26. The publication of this report marks the end of the first stage of the PIU WfD project, proposing a framework for future policy.

27. WfD needs a more joined-up approach. In the coming months, the PIU will consult widely within Government and beyond on the merits of specific proposals and will work with departmental colleagues in HM Treasury (HMT), DfES, DTI and DWP on options for taking the strategy forward as part of the 2002 Spending Review. John Healey will continue to be the Sponsor Minister.

28. The team will also work closely with the LSC as they develop their national strategy for WfD.

29. The PIU will publish a second report in the summer of 2002 setting out, in the light of the outcome of the 2002 Spending Review, the details of how the Government's policy will be taken forward and on what timescale.

2. INTRODUCTION

Summary

- Education, training and skills have been the focus of policy makers' attention for a century or more, reflecting concerns about the UK's poor relative economic performance and the social consequences of a poorly educated and trained workforce.
- Workforce development (WfD) is a new term for articulating these concerns. It has come to the fore in recent years as a result of the National Skills Task Force (NSTF) report published last year, the creation of the Learning and Skills Council (LSC) and the review of National Training Organisations (NTOs).
- The aim of this report is to set out a coherent strategy for WfD in the UK that draws together a range of new and existing initiatives as well as all the key stakeholders.

WfD, skills and training have long been a focus of attention

30. Government, employers, trade unions and others have been concerned for well over a century about the decline in relative UK economic performance compared with other industrial countries; and about the social consequences of a workforce with low skill levels.

31. The National Skills Task Force (NSTF), in a report published last year, set out a series of recommendations for the modernisation of the education and training system. In April this year, the Learning and Skills Council (LSC) was set up with a statutory responsibility for workforce development (WfD). There have also been other institutional changes in recent years – including the advent of the Regional Development Agencies (RDAs), the University for Industry (Ufi Ltd) and the Small Business Service (SBS). In parallel with the Performance and Innovation Unit's (PIU's) work, several other reviews have been undertaken or are under way including: the Department of Trade and Industry (DTI) business support review; the Confederation of British Industry (CBI)/ Trade Union Congress (TUC) work on productivity which has recently reported; the review of National Training Organisations (NTOs) (also recently concluded); and the Davies Review of Enterprise and the Economy in Education.

This project was announced by the Prime Minister last year

32. The Prime Minister announced this project through a Parliamentary Question on 8 November 2000.

33. The terms of reference for the project were to:

- carry out a thorough analysis of the WfD problem and its causes, covering the full range of demand- and supply-side factors that determine investment in WfD;
- examine what has worked well, what less well and what gaps remain in provision;
- develop a vision for the future and identify the main responsibilities and aspirations of the main stakeholders;
- ensure future Government policy has a clear strategic focus;
- develop a coherent strategy for change that seeks to draw together all the key initiatives and leads to real improvements on the ground; and
- engage fully with the different Government departments with a stake in WfD – not just Department for Education and Skills (DfES) but also DTI which is responsible for most of Government's dealings with business, Department for Work and Pensions (DWP) concerned with sustainable employment, the Treasury which leads on fiscal other matters, and other Government organisations with a sectoral interest.

The project has a number of clear boundaries...

34. The project had the following boundaries:

- **age:** it focuses on WfD for those aged 19 and over;
- **devolved administrations:** as training is a devolved area, this report focuses particularly on England whilst recognising that some elements of WfD are UK-wide (e.g. NTOs and private provision);
- **higher education:** higher education was outside the remit of the project, though many issues central to WfD have implications for higher education. For instance, the Government's aim of ensuring that 50% of people under 30 participate in higher education has implications for the structure of vocational education;
- **schools:** education for the under-19s was also outside the remit of the project. One of the objectives of education is to prepare young people for work (e.g. by equipping them with basic skills in numeracy and literacy and by helping to shape attitudes to learning both inside and outside the workplace). The Government has introduced a range of reforms intended to improve the quality of education and has substantially increased expenditure on schools. These reforms mean new entrants to the labour market should in future be much better educated and much better qualified than in the past. Although the project was not asked to look at this area, the success of these reforms will be vital to improving the skills of the future workforce and should be closely evaluated in this light;
- **existing structures and initiatives:** major institutional changes impacting on WfD have only recently been implemented. The project seeks to build on these and to suggest ways in which they might work together, not to reinvent them; and
- **skill levels:** development opportunities tend to be concentrated on those who already have high skills. This project therefore generally concentrates on lower and intermediate levels of attainment – where development opportunities are less commonplace – and not on those with

qualifications at level 4 and 5 or people in the professions. It particularly focuses on those whose skill levels are such that they find it difficult to participate in the workforce (primarily those with sub level 2 or basic skills problems). Figure 1 provides an overview of the National Qualifications Framework.

35. WfD has relevance to a number of policy areas. It has a direct impact on, and is in turn affected by, a wide range of issues which lie at the heart of Government strategies for UK prosperity including:

- **regeneration:** skills can be built in as a key part of strategies to revitalise areas in need and encourage enterprise;
- **employment:** WfD plays a major part in the wider employment agenda;
- **business support:** WfD is part of the overall agenda to provide businesses, particularly small businesses, with easily accessible advice and support;
- **response to the shifting demographics of the workforce:** an ageing workforce raises fundamental questions about the length of time workers spend in the labour market and the consequent need for them to update skills; and
- **immigration:** where skills are very scarce they may need to be imported, with consequences for immigration policy.

36. WfD starts in school with the workforce of the future and continues throughout life until retirement. Government policy can impact on WfD in a variety of ways: through schools; workplaces; individuals; and Further Education (FE)/Higher Education (HE). Government can also focus on specific groups in the workforce such as young workers, those about to enter the workforce, or those with particular skill deficits.

37. Given the broad scope for Government intervention, it is inevitable that priorities will need to be developed and some trade-offs may be required. A balance needs to be struck between intervening to solve immediate problems or taking a longer term view and establishing systems to minimise potential future problems. The nature of Government intervention will also change as the characteristics of the workforce change in the future.

Figure 1: National Qualifications Framework

Level of qualification	**General**		**Vocationally-related**[1]	**Occupational**
5	Higher level qualifications			Level 5 NVQ
4				Level 4 NVQ
3 advanced level	A level	Free-standing mathematics units level 3	Vocational A level (Advanced GNVQ)	Level 3 NVQ
2 intermediate level	GCSE grade A*–C	Free-standing mathematics units level 2	Intermediate GNVQ	Level 2 NVQ
1 foundation level	GCSE grade D–G	Free-standing mathematics units level 1	Foundation GNVQ	Level 1 NVQ
Entry level	Certificate of (educational) achievement			

[1] Also includes vocationally-related qualifications offered by organisations such as City & Guilds.

The project has been carried out by a multidisciplinary team working closely with others

38. A multidisciplinary PIU team, comprising a mix of civil servants and secondees from outside Whitehall, was assembled in March – April 2001. Details of the PIU and the team are given in Annexes 1 and 2. The team undertook its work in five phases (see Annex 4):

- planning and scoping the project including identifying stakeholders;
- fact-finding based around eight workstreams;
- production of an analysis paper reviewing the nature and extent of the WfD problem and its causes;
- developing a vision for a better future; and
- formulating policy options and recommendations to Government for the future of WfD.

39. In carrying out the review, the project team was supported by two groups: an Advisory Group and an Academic Panel. The Advisory Group was made up of representatives and stakeholders from inside and outside Government. This group was chaired by Mike Kinski, Transaction Director, Principal Finance Group, Nomura. The Academic Panel consisted of a range of academics all regarded as experts in aspects of WfD.

40. John Healey, the Minister for Adult Skills, is Sponsor Minister for the project. From the outset the project team has worked closely with DfES, DTI, DWP and HM Treasury (HMT) who have provided valuable data and information. Key agencies such as the LSC, Small Business Service (SBS), Ufi Ltd and the Qualifications and Curriculum Authority (QCA) also worked closely with the project team. Regional visits helped the team to gain an understanding of WfD arrangements at local level. A variety of workshop events were also held to help shape the team's analysis and thinking.

41. Annex 5 gives a comprehensive list of all the individuals and organisations consulted by the project team, visits made and events held.

The report is structured as follows...

42. The rest of this report is structured as follows:

- Chapter 3 sets out why WfD is important and why change is needed.
- Chapter 4 analyses the causes of current problems.
- Chapter 5 presents a vision for the future of WfD and the roles and responsibilities of key stakeholders in achieving that vision.
- Chapter 6 describes how demand for WfD could be increased.
- Chapter 7 outlines proposals for enhancing supply.
- Chapter 8 sets out proposals for the future Government framework necessary to support WfD.
- Chapter 9 summarises the next steps for taking forward the WfD project.

43. The report contains a number of annexes:

- Annex 1: The role of the Performance and Innovation Unit
- Annex 2: The Project Team, Sponsor Minister, Advisory Group and Academic Panel
- Annex 3: Definitions
- Annex 4: Methodology
- Annex 5: Organisations and people consulted
- Annex 6: Glossary

- Annex 7: Bibliography
- Annex 8: WfD performance targets
- Annex 9: International comparisons
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- Annex 11: WfD initiatives
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Annexes 8–12 are available on the PIU website:

http://www.cabinet-office.gov.uk/innovation/2001/workforce/report/index.html

The second stage of the project will now get under way

44. This publication does not mark the end of the PIU project on WfD. It represents a first stage proposing the broad elements of future strategy. In the next stage:

- the PIU will consult widely within Government and beyond on the merits of specific proposals;
- the Pre-Budget Report (PBR) and the Budget will take forward the Chancellor's Budget commitment to look at options for encouraging WfD;
- the PIU will work with the Sponsor Minister and departmental colleagues in HMT, DfES, DTI and DWP to ensure that WfD is fully considered in the 2002 Spending Review;
- the PIU will feed its further work into the LSC's national strategy for WfD, which the LSC is charged to produce by March 2002; and
- the PIU will publish a second report in the summer of 2002 setting out in detail, in the light of the 2002 Spending Review, how the Government's policy will be taken forward and on what timescale.

3. THE IMPORTANCE OF WFD AND WHY WE NEED ACTION

Summary

- **WfD consists of activities which increase the capacity of individuals to participate effectively in the workforce, thereby improving their productivity and employability.**
- **WfD has a crucial role to play in:**
  - **helping to close the UK's productivity gap with its competitors;**
  - **contributing to social inclusion; and**
  - **preparing the economy for the future.**
- **The UK workforce is getting more qualified over time but still suffers from serious deficiencies in basic and intermediate skills. Improvements in skills levels are not reaching those with lowest skills fast enough.**
- **The UK needs not only to catch up with other industrial countries, but to forge ahead as skill needs continue to evolve.**

Introduction

45. The purpose of this chapter is to:

- define WfD;
- explain why it matters both now and in the future; and
- set out where the UK currently stands in terms of its skills base.

What is WfD?

46. The definition of WfD adopted for the project:

- is broader than training[3] but narrower than education;
- is part of but not the same as lifelong learning;
- is firmly grounded in business need;

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[3] In this paper we refer to 'training' where statistics, surveys, etc. also use this term.

- encompasses formal and informal learning; and
- focuses on those in or near the workforce.

47. This suggests the following definition:

"Workforce development consists of activities which increase the capacity of individuals to participate effectively in the workforce, thereby improving their productivity and employability."

48. Definitions of related terms, e.g. training, education, lifelong learning, formal and informal learning and e-learning, can be found in Annex 3.

49. This definition is based on a broad view of the activities that constitute WfD. Such activities can be formal or informal. Informal WfD is notoriously difficult to measure and evaluate; hence much of the evidence underlying this report focuses on formal activities. But informal development can be immensely significant both for individuals and employing organisations alike.

50. Similarly, WfD is not a freestanding activity. In the workplace it must be seen as arising from the business needs of the organisation, the skills needed by employees and the basis of career progression by all.

Why does WfD matter?

"He who stops being better, stops being good."
Oliver Cromwell, Lord Protector of England 1653–58

51. WfD has a crucial role to play in:

- raising productivity;
- increasing social inclusion; and
- preparing the economy for the future.

Raising productivity

52. Human capital – the level of knowledge, skills and experience within the population – has been identified as one of five key drivers of productivity growth. Others include investment, innovation, enterprise and competition.[4] Increasing the stock of skills in an economy helps to increase productivity in a number of ways. Higher skilled workers are more flexible, adaptable and innovative. As a consequence, they can cope better with change and they are better at implementing and getting the most from new technologies.

The UK's productivity performance lags behind that of other countries

53. The UK's productivity performance, particularly labour productivity, lags behind other developed countries. Tackling this gap, illustrated in Figure 2 overleaf, is central to current UK economic, industrial and education policies.[5]

54. Explanations for the lower level of labour productivity in the UK include lower levels of capital employed, historic choices about business strategy and poor management as well as poor performance in WfD. The evidence suggests that: differences in physical capital account for a sizeable element of the UK's productivity gap with the US and Germany; differences in technological innovation explain the gap between the UK and the US; whereas skills are relatively more important in explaining the UK/German gap.[6]

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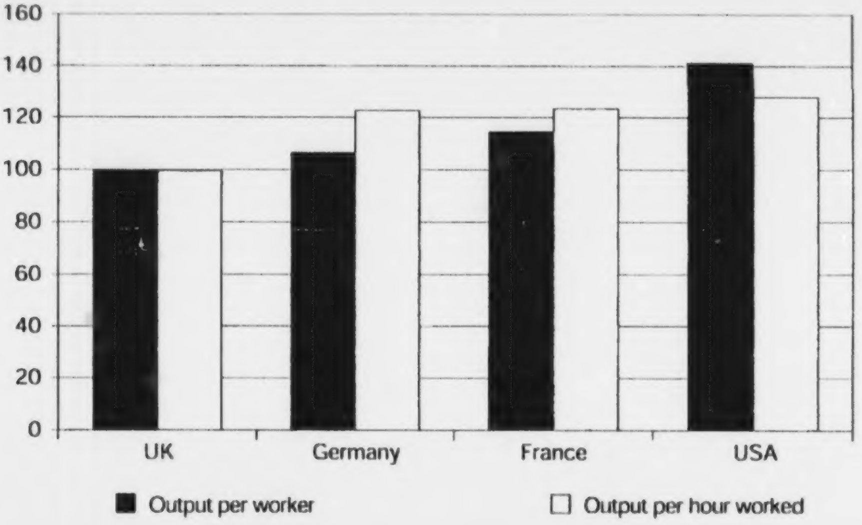
[4] *Productivity in the UK: Progress towards a productive economy*, HM Treasury, March 2001.

[5] The Government's productivity strategy is explained in the following publications: *Productivity in the UK: The Evidence and the Government's Approach*, HM Treasury, November 2000, *Productivity in the UK: Progress towards a productive economy*, op.cit. and *Productivity in the UK: Enterprise and the Productivity Challenge*, HM Treasury, June 2001.

[6] See, for example, M. O'Mahony, *Britain's Productivity Performance 1950–1996: an International Perspective*, NIESR 1999; R. Layard, S. McIntosh and A. Vignoles, *Britain's Record on Skills* working paper 2001; N. Crafts and M. O'Mahony, *A Perspective on UK Productivity Performance*, 2001.

Figure 2: Comparisons of productivity 2000 (UK = 100)[7]



WfD is a key contributor to improved productivity performance

55. There is a large research literature on the relationships between WfD, training, and beneficial effects on firms' and individuals' productivity; the latter measured by wages. A more detailed discussion of these studies can be found in the PIU analysis paper.[8]

56. A recent UK study (see Figure 3) drawing on industry-level data on training and productivity established a significant positive relationship between levels of training and productivity performance. Higher levels of productivity were associated with higher rates of training at the industry level, the gains being shared between the firms and their employees.

Figure 3: Who gains when workers train[9]

This study used industry-level data on training and productivity, noting a number of measurement problems. It found that:

- training significantly boosts productivity;
- the effect of training on productivity is around twice as great as the effect of training on wages. Employees and firms share in the gains from employer-provided training; and
- the results demonstrate a sizeable effect – e.g. raising the proportion of workers trained in an industry by five percentage points (say from 10% to 15%) is associated with a 4 per cent increase in value-added per worker and a 1.6% increase in wages.

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[7] *International Comparisons of Productivity*, OECD. All data relates to 2000 except output per hour worked in France is for 1999.

[8] http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml

[9] L. Dearden, H. Reed and J. van Reenen, *Who Gains When Workers Train?*, IFS, 2000.

57. Research shows that there are large positive effects on individuals' earnings and employment rates from having better numeracy skills, specifically from achieving at least level 1 skills but also in acquiring entry level numeracy skills. For literacy, there is weaker and more mixed evidence of the relationship between literacy and labour market outcomes, although it remains positive.[10]

58. In terms of the economy as a whole, there is a direct link between output and literacy: the higher the proportion of adults with high prose skills, the higher the GDP per capita. Furthermore, countries with wider economic inequality also have wider literacy inequality. A number of social benefits are linked to literacy skills, e.g. better health and longer life expectancy, and public and civic participation.[11]

59. In terms of qualification levels, the private rates of return measured by earnings to vocational qualifications at level 3 have been found to be good and comparable with their academic equivalents (A level). Lower returns are experienced at level 2 and below with vocational qualifications yielding insignificant gains and being generally more variable than the academic equivalent (GCSE).[12]

60. The NSTF[13] acknowledged the major difficulties in proving and quantifying the relationship between education and economic growth. The evidence on the relationship between training and economic performance at national and firm level is even weaker. The practical problems of research in this field should not be underestimated. However, there appears to be a growing consensus that human capital can explain observable differences in economic growth between countries and that benefits from investment in human capital, including WfD, accrue at firm and individual level.[14]

Box 1: Techno Terry

Even popping in briefly a couple of days a week will dramatically increase your abilities on the computer – as evidenced by our very own 'Techno Terry' Bloomfield, who only a few weeks ago asked where you put the coal in to keep the computers running, and is now sending e-mails to suppliers throughout the world.

***The Billingsgate Gossip*, newsletter of the Greater London Seafish Group Training Association**

Increasing social inclusion[15]

61. Stable work is a significant factor in lifting individuals and households out of poverty and social exclusion in both the short and long term – hence the Government's welfare to work policies to combat poverty and social exclusion. However, while *"unemployment may cause social exclusion, employment does not ensure social inclusion; whether or not it does so depends on the quality of the work offered... People are excluded not just because*

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[10] A good review of the latest research can be found in S. Machin, S. McIntosh, A. Vignoles and T. Viitanen, *Basic Skills, Soft Skills and Labour Market Outcomes: Secondary Analysis of the National Child Development Study*, Centre for the Economics of Education, DfES Research Report No.25, 2001.

[11] B. Pont and P. Werquin, *Literacy in a thousand words*, OECD Observer, October 2000.

[12] See, for example, L. Dearden, S. McIntosh, M. Myck and A. Vignoles, *The Returns to Academic, Vocational and Basic Skills in Britain*, 2000.

[13] *Skills for All: Proposals for a National Skills Agenda*, Final Report of the National Skills Task Force, 2000.

[14] See, for example, *The New Economy: Beyond the hype: OECD Growth Project*, OECD 2001, R. Blundell et al, *The Returns from Education and Training to the Individual, the Firm and the Economy: A Review of the Evidence*, IFS, 1999, and S. Machin and A. Vignoles, *The Economic Benefits of Training to the Individual, the Firm and the Economy: the Key Issues*, commissioned by the PIU, available at http://www.cabinet-office.gov.uk/innovation/2001/workforce/CODOC-rev1.pdf

[15] Social inclusion is the avoidance of social exclusion. According to the Cabinet Office Social Exclusion Unit definition this is "a shorthand term for what can happen when people or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, high crime environments, bad health and family breakdown".

they are currently without a job or income but because they have little prospects for the future.'[16]

There is a strong link between vulnerability to unemployment and educational or other qualifications

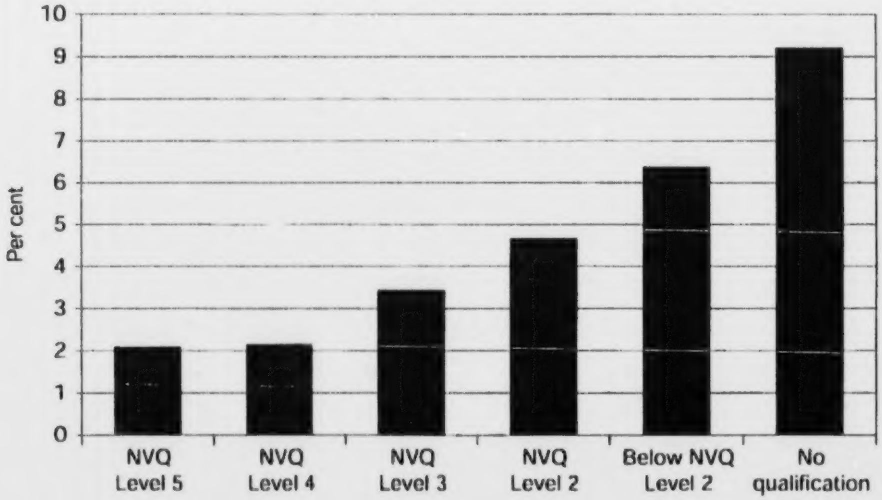
62. Studies[17] suggest that unemployment and low pay are extremely important indicators of exclusion, linked as they are to poor housing, poor health and fractured social relationships. There is a strong relationship between unemployment and level of qualifications as shown in Figure 4.

WfD can facilitate employability, career progression and social mobility

63. WfD can play a key role in assisting those with low skills to move out of low pay/no pay cycles by raising their skill levels and thus their chances of gaining higher paid, more stable and more rewarding work. There is a strong positive link between earnings and educational attainment across most Organisation for Economic Co-operation and Development (OECD) countries.[18] Figure 5 shows the position for the UK.

64. A number of studies have sought to estimate the gains to individuals from WfD, focusing on increases in wages. However, the returns from WfD vary by type of qualification obtained and other variables. Some of these studies are discussed in the PIU analysis paper.[19]

Figure 4: Unemployment rate by highest qualification (NVQ level equivalent) held



Source: Labour Force Survey, England, Spring 2001

Note: Full and part time employees of working age. Not seasonally adjusted

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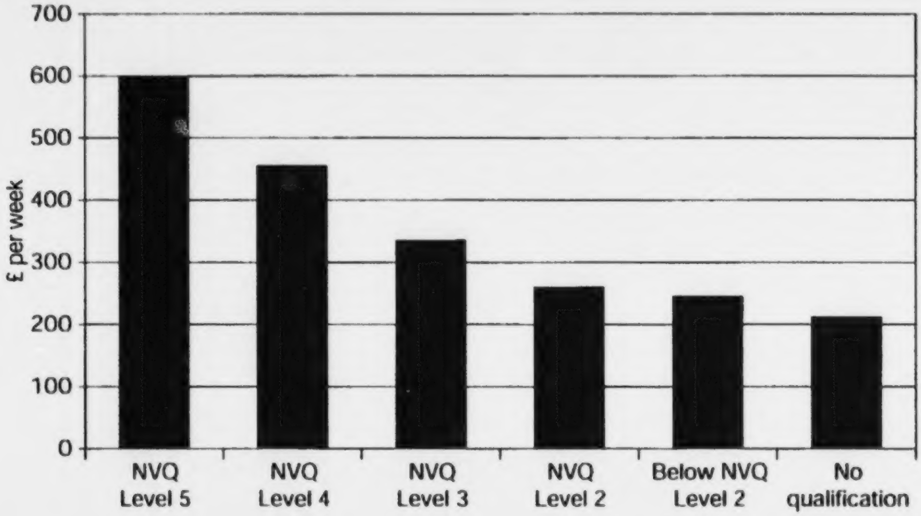
[16] A. B. Atkinson in A. B. Atkinson & J. Hills (eds) *Exclusion, Employment & Opportunity*, LSE Centre for the Analysis of Social Exclusion Paper 4, 1999.

[17] T. Burchardt, J. Le Grand & D. Piachaud, 'Social exclusion in Britain', in *Social Policy and Administration* 33(3), 1999.

[18] *Education at a Glance: OEDC indicators*, OECD, 2001.

[19] http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml

Figure 5: Average gross weekly earnings by highest qualification (NVQ level equivalent) held



Source: Labour Force Survey, UK, Spring 2001

Note: Full and part time employees of working age

There are significant inequalities in access to WfD

> *"There is a strong correlation between participation in training and level of education – a quarter of those with degrees questioned in surveys have typically participated in training in the preceding 4 weeks compared to only 4% of those with no qualifications. The link with earnings is equally stark – participation is twice as great for those in the top earnings quartile as opposed to the lowest quartile."*
>
> **S. Machin and D. Wilkinson, *Employee Training – Unequal Access and Economic Performance*, Institute for Public Policy Research, 1995**

65. The disparity in participation in job-related training is significant. Whilst 40% of those with degrees or higher participate in such training, only 6% of those without qualifications do so.[20]

66. This unequal distribution of WfD opportunities is important because low achievement early in life is highly correlated with continuing low achievement in employment. There is a link between skill levels and extent of deprivation, which begins at school and is not reversed in later life:

"Educational qualifications show a clear and strong relationship to every single adult measure of disadvantage at ages 23 and 33."[21]

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[20] Participation in job-related training in the last 13 weeks, Labour Force Survey, Spring 2001.

[21] J. Hobcraft, *The Roles of Schooling and Educational Qualifications in the Emergence of Adult Social Exclusion*, LSE Centre for the Analysis of Social Exclusion Paper 43, 2000.

67. Some groups are disproportionately likely to have low skills including the disabled, certain minority ethnic groups and older age groups.[22] There is conflicting evidence on whether 'atypical workers'[23] receive less development or as much development as might be expected considering they work fewer hours and/or might frequently be in transition between jobs.

Preparing the economy for the future

The world of work is changing...

68. Major changes are taking place in all industrialised countries and the pace of change requires a better skilled and more adaptable workforce able to work efficiently in all sectors and in all types of business. Some of these changes and their impact on work demands are:

- **globalisation** – as technology breaks down geographical barriers, firms can operate on a wider scale and the market for skills expands beyond country boundaries;
- **technological innovation** – requires a wide range of skills to bring new products and services to market and new skills to participate in the labour market;
- **customisation of goods and services** – new technologies make it easier for customers to order to their specification. This has implications for supply chain relationships and the degree of worker flexibility required;
- **improved access to information, primarily through new technologies** – for both customers and employees creates new opportunities to develop; and
- **demographic change** – the workforce is ageing and includes more women, creating new needs for WfD at different stages in people's lives.

69. Within this environment, the ability of those with low skills to participate will be severely restricted, therefore highlighting the need to focus attention on this group in the shorter term.

... highlighting the need for an adaptable workforce...

70. The workforce of the future will need to be adaptable, flexible, ICT literate and have the ability to learn.

- Of UK firms seeking to improve product or service quality, 70% will require additional high performance skills such as teamworking and customer handling.[24]
- Net growth in employment over the last 25 years has been in 'new jobs' such as design, finance and leisure services, which demand a different kind of intermediate or higher level skill than those associated with manufacturing, for example creativity and problem solving skills.[25]

71. Some indicators of the need for these new skills are illustrated in Figure 6.

72. There is a large body of evidence on the growing shortage of IT skills, despite the current slowing of the economy (see Figure 7). This could have a significant impact in the future as IT skills become essential for participation in the labour market.

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[22] Overall, white students perform better at school than those from many minority ethnic groups, apart from those from Indian and 'Other'. With regard to the adult National Learning Targets, achievement amongst all minority ethnic groups exceeds achievement among white people, apart from the Pakistani and Bangladeshi groups, who continue to have very low levels of qualification – 37% at level 3 compared with 46% for the white group.

[23] This is the term used by the DTI to describe employees who work part time, on fixed term contracts or through employment agencies.

[24] National Skills Task Force Employer Survey.

[25] Ibid, reaffirmed in the World Employment report 2001 *Life at work in the information economy*, ILO, Geneva, 2001.

Figure 6: Skills for the new economy

Adaptability	Percentage of managers in companies in the US and Europe expected to change jobs in the next 36 months: 66%.[26] Proportion of jobs where employer expects worker to take responsibility to find better ways of doing the job: 76%.[27] Proportion of workers who agree or strongly agree that their job requires them to keep learning new things: 81%.[28]
ICT skills	Proportion of jobs in which computers are essential or very important: 55% and rising. Only one third of workers in these jobs think they have the computing skills to maximise job performance.[29] Proportion of jobs in which internet use is essential or very important: 24% and rising.[30] Percentage of workers without access to computers or internet at home or work: 41% and falling.[31]
Communication and customer care skills	Counselling, advising or caring for customers or clients is becoming more important, and is now seen as essential or very important in 51% of jobs.[32] Of the 20% of firms reporting an internal skills gap, deficiencies in communication (54%) and customer care skills (51%) were most commonly reported.[33]

Sources: See footnotes (all statistics relate to the UK with the exception of the first item listed)

Figure 7: Shortage of technological skills

European Information Technology Observatory	By 2003, the UK will be short of 620,000 IT professionals, with e-business being the hardest area to address.
National Skills Task Force Employers' Survey (2000)	• Skills sought in connection with skill-related hard-to-fill vacancies in IT firms were overwhelmingly advanced technical 79% vs practical/technical at 24%, which was the second highest category. • Technical skills also represented the highest area of need – 44% – of hard-to-fill vacancies in all sectors.

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[26] M. Johnson, *Winning the People Wars: Talent and the Battle for Human Capital*, 2001.

[27] A. Felstead, D. Gallie and F. Green, *Work Skills in Britain 2001*, Department for Education and Skills, forthcoming in January 2002.

[28] ibid.

[29] ibid.

[30] ibid.

[31] 'Mouse in the House: the Role of Employers in Providing Internet Access for All', MORI and People PC, field research conducted in March 2001, report published June 2001.

[32] A. Felstead et al, *Work Skills in Britain 2001*, op. cit.

[33] NSTF Employer Survey.

Box 2: Cisco Systems: e-learning in practice

Cisco provides its employees with access to a sophisticated e-learning system to support the knowledge-sharing culture it seeks to create. The system relies on a combination of peer-to-peer networking and support, and flexible, quick-loading and easily searched content to help employees access what they need to know, when they need to know it, from their desks and laptops.

This approach to learning and information sharing blurs the lines between learning and work and between training, learning and information management, making it difficult to measure training in traditional ways. However, for Cisco, it has created efficiencies, increased employee satisfaction, and led to some important unintended consequences.

The company's new approach to learning and knowledge sharing has:

- reduced training and travel costs associated with training by 40–60%;
- increased employee learning options by providing anything-anytime-anywhere opportunities; and
- improved results as more confident employees are able to spend 40% more time with customers.

Everyone's a learner *and a trainer!*

Because the learning content is embedded within the company's comprehensive information systems, existing content can be updated and redeployed by anyone with the most recent content knowledge. Individuals at all levels use the system to contribute to each other's effectiveness by adding new content as it is developed. Presentation, audio and video production, and communication skills used in content development are increasingly common skills sets among Cisco employees. The in-house professional development experts ensure relevance and effectiveness and make it all engaging.

... and increasingly high performance firms

73. Changes in skills will only lead to improvements in economic performance, competitiveness and living standards if organisations are able to make use of the enhanced knowledge and potential of their employees. There is strong evidence to suggest that adult skills that are not used on a regular basis tend to atrophy and may be lost.[34]

74. To make progress on the basis of enhanced skills across the board requires a move towards High Performance Working (HPW) practices which actively engage employees in shaping their own working environment and becoming self-directed learners.

75. Evidence from the Chartered Institute of Personnel and Development (CIPD) indicates that companies which adopt and maintain HPW practices enjoy higher levels of productivity and should be better placed both to cope with change and to exploit technological or other innovation.

76. What constitutes high performance will vary for different industries. HPW is an emerging organisational model, which is still being developed throughout the world. HPW practices include devolved decision-making,

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[34] H. Krahn, 'On the Permanence of Human Capital: Use it or Lose it', *Policy Options*, 1997.

team working and autonomous working in non-hierarchical structures. It depends on high levels of skill and the ability to engage in lifelong learning. It also requires an environment in which there are high levels of trust, communication and involvement.

77. Fundamental to the success of HPW is the presence of workers who can demonstrate high levels of personal skill. However, it also requires management commitment and, in many cases, significant cultural change. Therefore it cannot be regarded as a quick or easy solution.

Where does the UK stand in terms of its skill base?

78. The UK is making progress in upskilling its workforce but it still has a comparatively large base of people lacking basic and intermediate skills. This may improve over time as the educational qualifications of future cohorts of younger workers increase. But economies are not static; the UK needs not only to catch up but also to keep up.

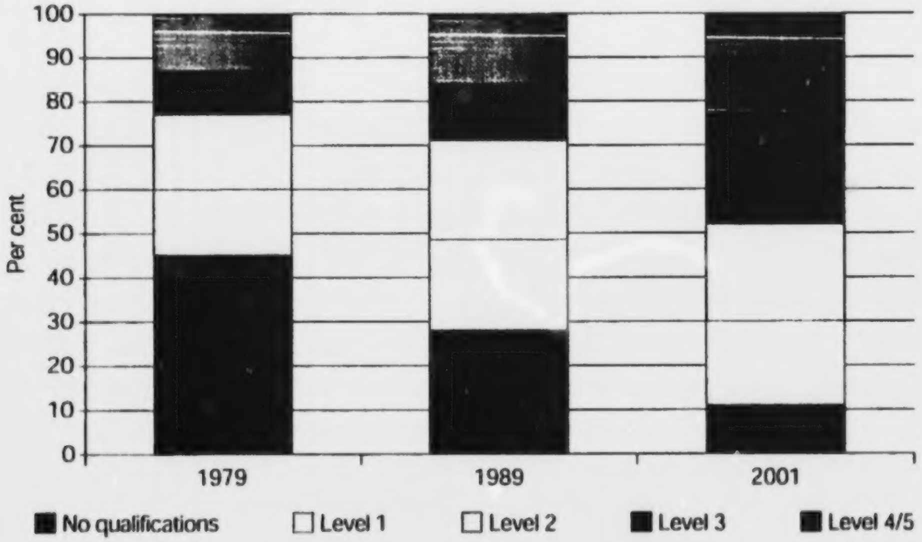
Qualification levels are increasing

> *"Where I work, at one time you could make it to Managing Director with no qualifications, if you had trouble at school or whatever, you were given a chance in industry to go right to the top. Now, I am as high as I will ever go in my industry, unless I go and do a degree or something like that."*
> **MORI/focus group research for PIU**

79. Qualifications act as a proxy for skill levels by signalling achievement and motivation as well as indicating specific knowledge. Over the past 20 years there has been a significant increase in the general qualification level of the workforce. (See Figure 8.)

80. The proportion of the workforce holding qualifications equivalent to National Vocational Qualifications (NVQ) level 4 or above has more than doubled since 1979

Figure 8: Qualifications (NVQ level equivalent) of employees and self-employed people of working age



Source: Labour Force Survey, UK, Spring 2001

Note: Employees and self-employed of working age and a quarter of the workforce is now qualified to this level.

81. The proportion holding no qualifications has declined dramatically. This increase has been driven predominantly by the rising attainment of young people entering the workforce[35] and increased participation in full-time education.

82. However, the qualifications that people hold are only one indicator of skills. Other proxies for the skills of the employed workforce are the qualifications required by employers, the length of training time and learning time required before proficiency is attained. These proxy measures also show that the average skills of all those employed have been increasing. (See Figure 9.)

83. Between 1986 and 1997, the proportion of jobs requiring some sort of qualification rose from 62% to 69%. The proportion of jobs requiring just a short time (less than one month) to achieve proficiency (for the most part relatively low-skilled jobs) fell from 27% to 21%. A recent survey shows that, according to most measures, the skill level of jobs has continued to increase in the last four years.[37]

But there is a widespread lack of basic skills and qualifications

84. Over 20% of adults in the UK have poor literacy and numeracy skills[38] (see Figure 10). While this is a similar figure to that in the US, it compares badly with many European countries.[39] This low level of basic skills has a negative impact on the UK economy and on the welfare of the individuals concerned. The Government has made improving basic skills a priority, with the ultimate goal of achieving the best numeracy and literacy rates in the world for the UK.

85. Basic skills can be measured using tests devised by the Adult Basic Skills Strategy Unit. A level 1 test is equivalent to the literacy and numeracy skills expected of an 11-year-old and includes such tasks as identifying the main points and specific details in a text, or recognising and using fractions, decimals and percentages. A level 2 test is equivalent to the basic skills required of someone gaining a

Figure 9: Measure of job skill trends

	1986	1997
Required qualifications (% of jobs)		
Some qualifications are now required to get job	61.6	68.5
A degree is now required to get job	9.7	14.1
Length of training for the type of work (% of jobs)		
Less than 3 months	66.0	57.0
More than 2 years	22.4	28.9
Time taken to learn to do job well (employees only) (% of jobs)		
Less than 1 month	27.1	21.4
More than 2 years	24.3	24.3

Source: F. Green, D. Ashton, B. Burchell, B. Davies and A. Felstead (2000)[36]

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[35] *Skills for All: Research Report from the National Skills Taskforce*, 2000.

[36] L. Borghans and A. de Grip, *Are British Workers Getting More Skilled? The Over-Educated Worker? The Economics of Skill Utilisation.*

[37] A. Felstead et al, *Work Skills in Britain 2001*, op. cit.

[38] *A Fresh Start: Improving Literacy and Numeracy*, Report of the Working Group chaired by Sir Claus Moser, DfEE, 1999.

[39] *International Adult Literacy Survey*, OECD, 2000.

GCSE at grade C or above. Basic skills can be obtained at the standard of level 1 or level 2.

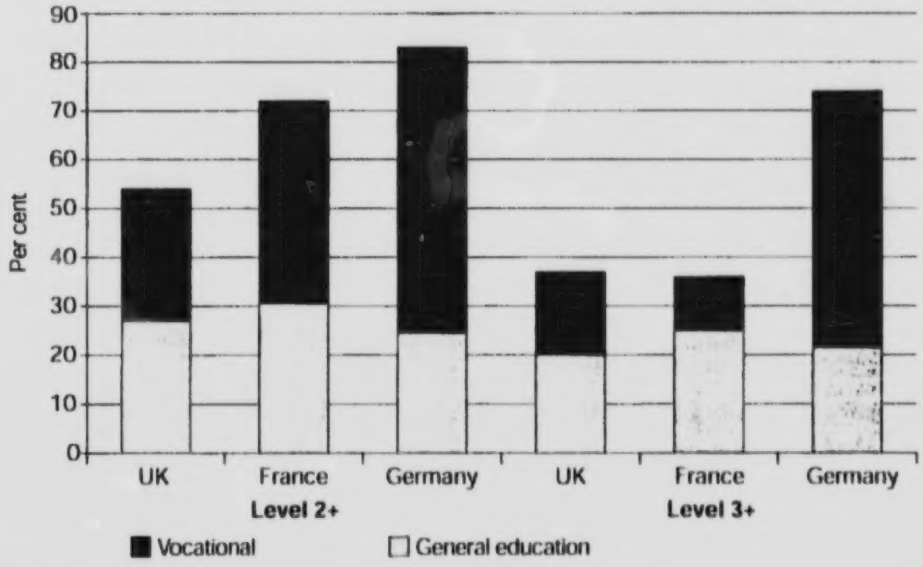
86. At present, the Government has a target "to reduce the overall number of adults who have difficulty with literacy or numeracy by 750,000 by 2004". It is expected that over a quarter of this target will achieve entry level skills[40] and the rest will achieve level 1 and above.

87. Since the Adult Basic Skills Strategy, *Skills for Life,* was launched in March 2001 by the Prime Minister, much progress has been made. Since March, at least 70,000 learners have been helped to acquire basic skills, of whom 1,250 have passed the new national tests in literacy and numeracy. And to stimulate further demand, a national promotional campaign was launched resulting

Figure 10: Adult basic skills problems

- 7 million adults do not have literacy and numeracy skills at a level 2 standard. This means that one in five adults do not have the basic skills to perform simple everyday tasks.
- Individuals with basic skills problems are up to five times more likely to be unemployed[41] and far more likely to work in low paid, low skill jobs.
- Poor basic skills add to business costs[42] (because of the need for additional supervisory staff, higher error rates, etc.) and may also have wider social consequences[43] (e.g. poor health)[44].

Figure 11: Percentage of the workforce with at least level 2 and at least level 3



Source: Steedman (1999)[45]

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[40] For instance, the ability to recognise and name common shapes such as rectangles, circles, cubes, etc or to organise writing into short paragraphs.

[41] Machin et al, *Basic Skills, Soft Skills and Labour Market Outcomes*, op. cit.

[42] Gallup Survey cited in *A Fresh Start*, op. cit.

[43] *Skills for Life: the National Strategy for Improving Adult Literacy and Numeracy Skills*, DfEE, March 2001.

[44] These have a combined cost in the order of £15bn but such figures are inevitably surrounded by a margin of error.

[45] *Updating of Skills Audit Data*, Provisional interim report to the DfEE/LSE Centre for Economic Performance 1998, reproduced in *Skills for All: Research Report*, op. cit.

in 50,000 adults calling a national telephone hotline for information about courses.

88. These are vital improvements because the poor basic skills of many adults are a substantial barrier to the take-up of further WfD opportunities. Without good literacy and numeracy skills, individuals are unlikely to be able to engage in other skills development.

89. As noted by the NSTF Research Paper,[46] the gap in qualification levels between the UK and France and Germany is particularly significant for vocational qualifications (see Figure 11).

Despite recent improvements in performance, the UK seems likely to continue to lag behind other countries...

90. Figure 12 shows the proportions of young age groups holding qualifications at level 2 and above, and level 3 and above. The UK lags behind mainly for the 25–28-year-old age group.

91. Workers in France and Germany undertake significant WfD after the age of 21 in order to achieve level 2 and level 3 qualifications. This is not the case in the UK. British workers who do not achieve level 2 or 3 prior to reaching the age of 21 are less likely to make up for this in later life than their counterparts in France and Germany.

The least well qualified, older employees and those working in small firms are least likely to participate in training

92. As Figure 13 shows, participation in training is almost five times greater for those with degrees and professional qualifications (level 4 and 5) than for those with no qualifications. This pattern is also reflected in the distribution by occupation: almost 30% of employees in 'professional' occupations participate in training, compared with 14% in clerical and secretarial, 12% in craft and related, and 7% for plant and machine operatives.[48]

Figure 12: Comparisons of qualifications at level 2+ and level 3+ in the UK, France and Germany (% of relevant age group)

	Level 2+			Level 3+		
	UK	France	Germany	UK	France	Germany
All qualifications						
Age 19–21	70	81	65	43	43	48
Age 25–28	61	83	85	41	54	78
Vocational qualifications						
Age 19–21	26	25	28	14	5	26
Age 25–28	28	43	52	17	18	48

Source: Steedman (1999)[47]

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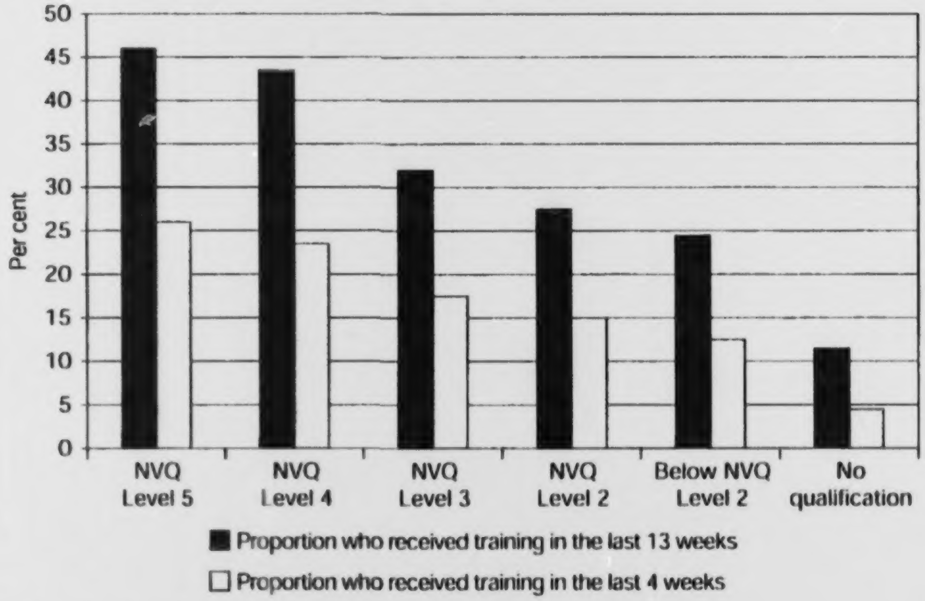
[46] *Skills for all: Research Report*, op. cit.

[47] *Updating of Skills Audit Data*, op. cit.

[48] *Labour Force Survey*, DfEE, Spring 2000.

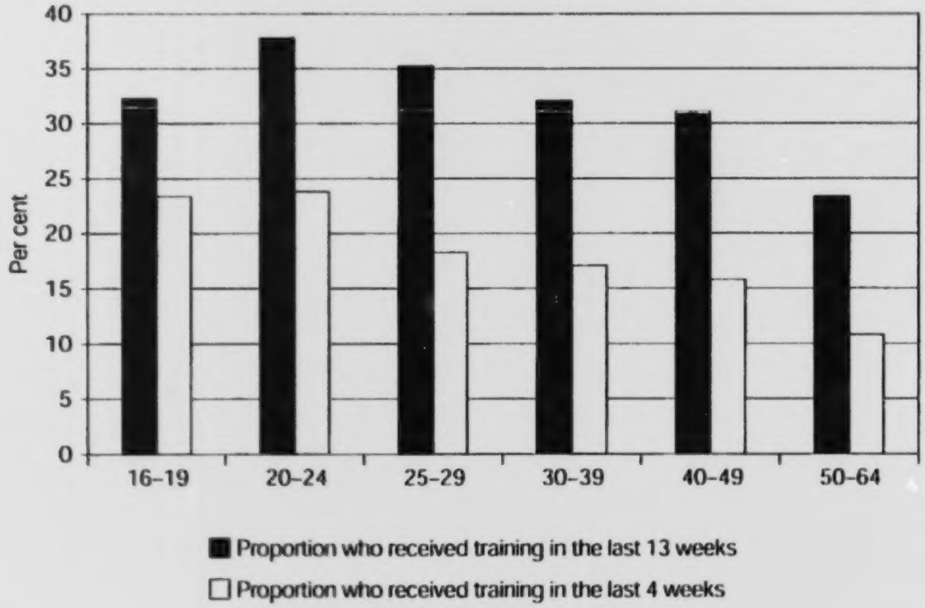
Figure 13: Percentage of employees receiving job-related training by highest qualification (NVQ level equivalent)



Source: Labour Force Survey, England, Spring 2001

Notes: Full and part time employees of working age

Figure 14: Percentage of employees receiving job-related training by age



Source: Labour Force Survey, England, Spring 2001

Note: Full and part time employees of working age

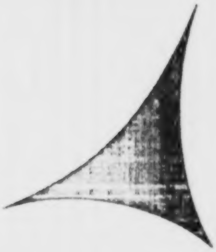


Figure 15: Percentage of employers providing training

Size of establishment (no. of employees)	Off the job %	On the job %
1–4	33	59
5–24	54	81
25–99	78	89
100–199	92	94
200–499	96	93
500+	98	92

Source: Steedman (1999)[47]

93. Young people aged 16–24 are more than twice as likely to participate in training as workers aged 50–64 (see Figure 14). Yet the need for better skills can be just as relevant for older workers.

There is a particular problem in small firms

94. The proportion of employees receiving training increases with establishment size, with relatively low levels of training undertaken in businesses with up to 25 employees. Figure 15 provides a summary of training by size of establishment.[49]

95. Firms with fewer than 25 employees are significantly less likely to provide training, yet 11% of the UK workforce is employed by such businesses.[50] This reinforces the poorer chances for lower-skilled employees to upskill since approximately 50% of those without level 2 are estimated to be employed in firms with fewer than 50 employees.[51]

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[49] *Learning and Training at Work*, DfEE, 2000.

[50] Small and Medium enterprises (SMEs) statistics for the UK 2000, Small Business Service.

[51] *Labour Force Survey*, op. cit.

4. WHAT'S PREVENTING THE UK RAISING ITS GAME ON SKILLS?

Summary

- There is no single factor underlying the problems of WfD in the UK but a combination of economic, social, historical and cultural influences.
- In combination, market, Government and other failures may create systemic failures such as a 'low skills equilibrium' which traps both individuals and employers in a low skill/low expectation cycle.
- Insufficient levels of investment for at least some groups of workers are caused by market failures that impair the efficient operation of the market in WfD.
- Government failures ranging from overcomplicated structures to sub-optimal funding mechanisms have compounded these market failures.
- Given the complex nature of the factors underpinning WfD and their interrelationships, it is unlikely that any single initiative can have a significant impact on engaging individuals and employers. An integrated approach addressing both the demand and supply sides within a supportive Government framework is required.
- The way forward is a demand-led system for all. There is a strong case for Government intervention to enable the lower skilled to participate and progress within this system. The Government should prioritise the lowest skilled, and the long term aim should be to ensure that all adults have the opportunity to achieve a level 2 as a springboard to further progress.

Introduction

96. There is no single factor underlying the problems identified in the previous chapter but a complex mix of economic, social, historical and cultural influences. WfD has a number of unique characteristics:

- WfD tends to be a long and uncertain process, the benefits of which are often hard to quantify, particularly in the shorter term, but there is evidence of economic and social gains.
- The behaviour of people involved, including those receiving training, is often strongly affected by the social and cultural context.
- Most WfD has to take place in or around the workplace, so whether it takes place depends on the culture, business strategy, size, and type of firms or organisations where people work. Informal learning in particular is closely linked to specific workplaces and processes.
- WfD requires a relatively long term perspective, which does not always fit well with the culture of small businesses, the requirements of shareholders for returns, the competing pressures on individuals' time or the time horizons of policy makers.

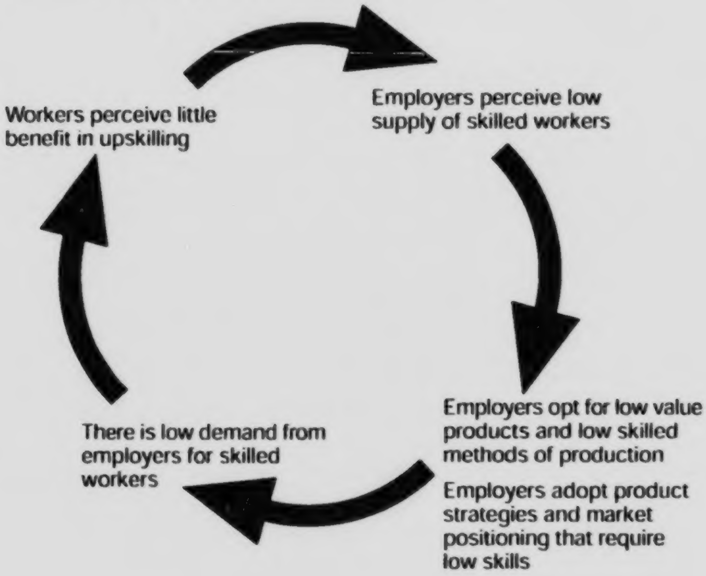
97. This chapter sets out:

- the manifestations of failings in the WfD system;
- the role of culture, market failure and Government failure; and
- the implications for developing a new approach to WfD.

A low skill/low wage trap is symptomatic of many failures...

98. Many factors combine to create the WfD problems identified in the previous chapter, including cultural factors, market and Government failures. When these factors

Figure 16: The low skill/low wage equilibrium


Workers perceive little benefit in upskilling
Employers perceive low supply of skilled workers
Employers opt for low value products and low skilled methods of production
Employers adopt product strategies and market positioning that require low skills
There is low demand from employers for skilled workers

combine they may result in a 'low skills equilibrium',[52] a vicious circle of low productivity and low supply of skilled workers, as illustrated by Figure 16.

99. Though the 'low skills equilibrium' is not a true representation of all sectors of the UK economy, and is, in part, an exaggeration of the actual situation,[53] it provides helpful conceptual insights, including recognition that innovation in products and processes may be discouraged by perceptions of skill shortages.

100. This model also highlights the issue of 'path dependency': once managers adopt a strategy based on a given skill level, it is not easy to adopt a different strategy. Indeed if a previous strategy based on low skills has been successful, management may be reluctant to develop new or enhanced strategies even if a skilled workforce is available.

101. A survey undertaken by the NSTF found that roughly half the employers surveyed foresaw skills-related problems if they sought to respond to competitive market pressures by developing higher value-added product strategies. Case studies carried out for the NSTF indicated that if companies attempted to move towards higher value-added strategies without complementary changes to human resource strategies, latent skills gaps would be revealed.

102. Once locked into a particular path, it may be difficult to change even if the economy as a whole would benefit from doing so. The rest of this chapter explores the factors that may contribute to the development of a low skills equilibrium and the problems that Government needs to address in overcoming it.

Cultural factors – attitudes of employers and individuals

WfD does not lie at the heart of business strategies

103. For employers, development is a derived need – employers develop their staff because they believe it will help them achieve their business objectives. This suggests that an effective way to stimulate demand for development in businesses is through encouraging greater ambition in the planning process, the adoption of best practice, and the pursuit of high value-added and innovative product strategies that need staff capable of delivering them.

104. However, the NSTF's research suggests that skills tend to be neglected when employers are formulating their business strategies. Whilst 60% of businesses have business plans, only 39% have training plans and only 24% have human resource (HR) plans[54] indicating the limited extent to which training and skills issues are integrated into senior management planning.[55]

105. Many businesses do develop their staff. Employers reported spending £23bn on training during a 12-month period in 1999–2000. This figure includes approximately £10bn of labour costs (a measure of the time employers spend on training). And it includes all types of training including induction and health and safety training.[56] But without a link to business strategy, or to relevant accredited training, the effectiveness of such development may be undermined. There are a number of barriers which prevent organisations making this link:

[52] As described in D. Finegold and D. Soskice, *The Failure of Training in Britain: Analysis and Prescription*, Oxford Review of Economic Policy 4(3), 1988.

[53] The empirical evidence of a low-skills equilibrium in the UK is yet to be established. See *Anticipating Future Skill Needs: Can it be done? Should it be done?* Skills Task Force Research Report paper 1.

[54] D. Spilsbury, *Learning and Training at Work*, IFF Research commissioned by DfEE, 2000.

[55] "...the Task Force's research suggests that skills tend to be a neglected issue when employers are formulating their business strategies", NSTF Research paper 15, *Employer Attitudes Towards Adult Training*.

[56] *Learning and Training at Work*, IFF Research commissioned by DfEE, 2000.

- WfD (a subset of wider human resource management) is often seen at best as **one of many elements competing for management attention**. WfD is only one of the potential tools available to firms (outsourcing, new purchasing arrangements and automation are others) for improving productivity performance.
- UK managers indicate a significant degree of **risk aversion** relative to other countries.[57] The extent to which this affects the ambition of business plans is a matter for speculation but it is a widely held opinion that the UK's cultural bias[58] leans towards short termism and risk aversion in planning.
- The most effective WfD is embedded in **company culture**. A culture that values development is more likely to maintain higher level, better quality and broader development opportunities. Aspirational models for companies, including HPW or 'The Learning Organisation' (see Annex 3 for definitions) or IiP, are all about implementing such a culture. Many British companies would find it difficult to adopt these models without significant change.
- **Management and leadership skills** and expertise are essential for achieving enterprising cultures, innovation, growth and success, all of which underpin the successful development of the UK economy. The impact of poor management can be seen in Figure 17. DfES and DTI have responded to this issue by establishing The Council for Excellence in Management and Leadership (CEML) which is tasked with developing a national management strategy.
- **Small and medium enterprises (SMEs) have distinctive needs** which may not be addressed by the standard business qualifications available within the further and higher education system. While the issues are likely to be similar, the timing and type of management training required by the typical SME will be closely related to the business lifecycle, the changing size of the organisation and the need to address immediate business problems. A number of providers are currently working to offer flexible provision more suited to SME needs.

106. The public sector has a strong record of providing a wide range of employees with frequent development opportunities.[59] The diversity of the sector leads to organisations with different purposes, cultures and approaches to WfD. The public sector has the potential to act as a role model for WfD and is already doing so in terms of requirements to achieve IiP accreditation and the adoption of the Charter Mark scheme.

Figure 17: The cost of a bad boss

58% of senior and mid-level managers reported that they have worked for an underperformer. How did this affect them?

• prevented me from learning	76%
• hurt my career development	81%
• prevented me from making a larger contribution to the bottom line	82%
• made me want to leave the company	86%

Source: McKinsey's 'War for Talent' survey of 6,500 senior and mid-level managers at 35 large US companies, 2000

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[57] UK Competitiveness Indicators: Second Edition, DTI, Feb. 2001.

[58] *Motivation for WfD: The Role of National Culture*, David Guest, The Management Centre, King's College, London. Published on PIU website (www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml)

[59] The *Employee Relations Survey (*1998) revealed that 70% of the public sector staff interviewed had had some development during the past 12 months.

107. The voluntary sector is small in terms of numbers of employees (485,000 workers which amount to the equivalent of 319,000 full-time posts). However, less than a quarter of the 135,000 general charities in the UK employ paid staff. This means that the vast majority of organisations rely solely on voluntary workers. WfD for this group poses a very particular set of challenges. However, WfD is becoming more important for this sector as its role expands and it takes on work carried out in the past by the public sector.

108. It is also important to consider the interaction with:

- **business regulation:** some regulations may have beneficial consequences for skills development. For example, recent regulations requiring care home workers to have a minimum level of skill will encourage development. The Low Pay Commission is researching the extent to which the introduction of the National Minimum Wage (NMW) may have encouraged employers to invest more in the training of their workforce.[60] Others may have unintended side effects and these effects need to be built into the design of policy options and into subsequent work on the evaluation of impacts;
- **inward investment:** skill development can incentivise inward investment or be part of the conditions for Government support; and
- **sectoral policy:** e.g. transitional arrangements for declining sectors and support for the development of strategic skills for the future.

Many individuals lack the motivation to learn

109. The National Adult Learning Survey (NALS)[62] provides some insights into adults' attitudes to learning (see Figure 18). The survey has a fairly broad scope, defining a learner as someone who has taken part in at least one taught or non-taught learning activity within the past three years. These results give an insight into attitudes to WfD, even though NALS is not exclusively concerned with learning linked to work. They reveal how little motivation many individuals have to participate in any activity

Figure 18: Key statistics from NALS 1997[61]

- 74% of adults aged 16–69, who have left full-time education, say they have undertaken some form of learning in the last three years, or since leaving full time education if more recent. Learners tend to be male; younger; in non-manual occupations; to have stayed in full time continuous education longer; and to have left full time education with higher qualifications.
- 24% of adults say that they have not undertaken any kind of learning in the past three years – 'non-learners' tend to be aged 50 or over; looking after the home or family; retired; or unable to work because of long term sickness. Most have left school with few qualifications.
- 50% of those who say they have done no learning in the previous ten years say that nothing would encourage them to learn.
- Even 49% of non-learners who enjoyed full time education a great deal say that nothing would encourage them to learn.

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[60] "Overall the minimum wage had a modest positive effect on training" (Third report of Low Pay Commission para 3.111 Vol 1, March 01)

[61] The forthcoming NALS 2001 results are not expected to show a significant change on these statistics.

[62] NALS 1997 defines a 'learner' as someone who has taken part in at least one taught or non-taught learning activity within the past three years (although individuals are learning all the time).

through which they may learn new skills or acquire new knowledge. They also reveal the reasons why many individuals do not participate in such activities.

110. Prime reasons for non-participation in learning include a preference to spend free time doing other things, family commitments and work pressures. In addition, individuals who have difficulty with literacy or numeracy are often reluctant to admit that they have a problem. They may avoid situations where their weaknesses would be exposed:[63]

> *"It's a bit embarrassing when they come home and say 'oh, how do you spell this or how do you do this maths' and you haven't got a clue."*
> **Low income mother**[64]

111. Government cannot compel individuals to learn. Enhancing motivation[65] must underpin all policy in this area, for employers and individuals alike. Psychological barriers to learning inhibit the motivation to develop, irrespective of whether other practical barriers, such as childcare, transport costs and access to information, have been overcome.[66] Removal of any possible financial barriers is only part of the solution to stimulating demand.

112. Levels of motivation amongst individuals are not static. The quality of the learning experience and employment can impact on motivation levels across the workforce and over time. If levels of motivation are weakened by poor experiences or through insufficient rewards, then demotivation[67] will occur and motivation will be harder the next time around. Often the low skilled have had negative experiences of training, education and employment starting from school. From this perspective, it is rational not to engage in any activity that may lead to further failure or difficulty.[68]

Market failures

Returns go beyond individuals and employers ('externalities')...

113. The benefits of education and training are, in large part, captured by individuals through increased earnings and by firms through increased productivity. But the benefits for society as a whole can be even greater since numeracy, literacy and other key skills contribute generally to economic performance.

114. Since these so-called 'positive externalities' of WfD are shared widely, individuals' and firms' decisions to train may fail to take full account of them, leading to underinvestment in WfD from the point of view of society as a whole.

115. There are various reasons why the benefits of education and training to the economy as a whole (the social returns) may exceed the private returns obtained by individuals and firms. Most obviously, there are benefits to society from having a better educated and literate population, e.g. in terms of democratic participation and social

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[63] *Skills for Life: the National Strategy for Improving Adult Literacy and Numeracy Skills*, DfES, 2001.

[64] *Project Railway Opportunities for a Learning Magazine*, The Campaign for Learning, 1998.

[65] Motivation generally refers to an inner drive, goal or the act or instance that drives you to do something, but psychologists define it as 'the process that arouses, or sustains and regulates, human behaviour'. Within this, motivation can be extrinsic (social, in order to gain social acceptance such as pleasing the trainer or the boss, or being one of the in-crowd; or instrumental, in order to gain a tangible reward or avoid negative consequences) or intrinsic (curiosity, interest and satisfaction for its own sake or autonomy), for example, the desire to succeed - "I'm not going to let this beat me". Intrinsic motivation is perceived as being far more effective and powerful.

[66] Research undertaken on barriers to learning during the development of Individual Learning Accounts suggested that a complex mix of emotional and practical barriers exist for individuals in different circumstances. There is a lack of robust information on the significance of single factor barriers and the numbers that might be motivated by their removal.

[67] A qualitative study in a disadvantaged neighbourhood in Northern England found only a small minority had no education or training since leaving school, but that multiple factors discouraged consistent commitment: T. Burden and J. Konrad, *Successful futures? Community views of adult education and training*, 2000.

[68] S. McIntosh and H. Steadman, 'Learning in the workplace: some international comparisons', 2001, found that the majority of low skilled workers do not perceive the relevance of training because their jobs do not require literacy skills.

cohesion. But there is also evidence of positive effects on productivity, e.g. higher educated individuals improving the productivity of their colleagues. Other benefits are the ability of better trained individuals to respond more quickly to change and to be more adaptable.

These arguments provide an important justification for public support for the development of the workforce. However, there are, in practice, numerous difficulties in quantifying the precise scale of such effects.

Box 3: A shortage of heating engineers

There are about 94,000 registered gas installers in the UK, of whom 66,000 are qualified to fit gas central heating. Most of these installers were trained by British Gas, which used to train about 1,000 skilled staff a year under its apprenticeship scheme. Since privatisation in 1986 there has been a general reluctance within the industry to train new staff in such large numbers. This has two main roots:

- Almost half of all those employed are in very small companies, many of them being sole traders without the inclination or confidence to grow.
- Those companies which are large enough to consider investing in training cite fears of poaching as the greatest disincentive.

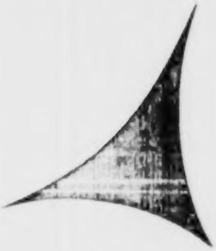
This lack of training over the past 15 years means that there are few young people employed in the industry, with the age profile skewed towards those of 40+ and even 50+. Some 30,000 installers could retire in the next five years. Problems are set to increase in the future as the Health and Safety Executive introduces a new safety qualification that is more rigorous and expensive than the current NVQ requirements for CORGI registration and renewal. CORGI estimates a 7–10% drop-out of registration by those who can't or don't want to qualify under the new scheme. Some estimates are more pessimistic, warning that, together with the age profile, as many as 30% of installers may decide to retire when their current certification expires – i.e. within the next three to four years.

This shortage has severe implications, not least for projects such as DEFRA's Home Energy Efficiency Scheme (HEES) and Transco's Affordable Warmth Programme, which seek to relieve fuel poverty and upgrade social housing. The longer term impact on prices across the market is also cause for significant concern.

Current measures to address the situation include:

- a national training programme initiated by HEES to train 800 new engineers for the scheme during 2001–02;
- DWP training programmes such as re-training semi-skilled staff being released by Corus; and
- work to promote the career to young people in technical colleges through a tailored NVQ.

Source: Ministerial group on fuel poverty, MGFP(01)04, DEFRA and DTI, July 2001



... and there is a widespread perception that skilled staff are in danger of being poached

> *"Over the years you get a bit more cynical ... you take these people on for the first few years when you start and yes we'll train them and it will be wonderful and they all get pinched and they go off and get better jobs and as the years go by you think 'What's the point?' Why go to the trouble of giving them the time off, pay for them to be trained and then a year later they are off somewhere else?*
>
> **Employer, less than five employees, PIU focus group, 2001**

> *"I invest in my employees. I understand that they may get a better job somewhere else, but at least they are better employees while I have them. Do I really want an untrained person sticking around?"*
>
> **SME Owner/Manager, PIU focus group, 2001**

116. Many skills are transferable and employees are mobile. The loss of employees once trained is a key concern for SMEs. Many owner managers cite risk of poaching as a factor in their decision making process. SMEs may be able to afford to train staff but not to pay an immediate premium for the training. Another employer can offer a small premium in pay and 'poach' their ready-trained employees. In addition, promotion prospects may be more limited in SMEs forcing employees to move jobs to progress.

117. Available evidence on poaching is mixed – there is evidence to show that increased training can lead to improved rates of retention of existing staff[70] and evidence to the contrary, particularly for small firms.[71] On balance, the evidence suggests that training increases retention slightly, especially where the employer pays for the training. Thus, widespread concerns about poaching are not always justified by the evidence. However, employer perceptions and experience may discourage SMEs from investing in training their workforce.

Imperfect information is pervasive and affects the decisions and choices made by individuals, employers and suppliers...

118. Good quality information is needed because individuals and firms need to be aware of the benefits of WfD in order to make sound choices based on the expected returns. For this to happen all parties need easy and low cost ways of accessing information.

Current Information, Advice and Guidance (IAG) services are inadequate both for individuals...

119. Good quality IAG is recognised by the NSTF[72] as essential to effective WfD, and to creating and sustaining motivation for individuals to learn. IAG for adults has, over many years, had fairly low aspirations and is perceived to have been relatively poorly

Figure 19: Existing IAG provision

Existing public IAG provision includes:[69]

- the **learndirect** national helpline and website;
- 75 local IAG partnerships, bringing together diverse providers of IAG in local areas, including Jobcentre Plus and Connexions; and
- other web-based resources such as Worktrain.

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[69] http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml (for further details).

[70] L. Dearden et al, *Labour turnover and work-related training*, IFS, May 1997.

[71] D. Storey, *Human Resources Management Policies and Practices in SMEs in the UK*, Warwick Business School, Nov. 1999.

[72] The NSTF found that stimulating informed demand for learning amongst individuals comprises four key components, including providing access to information on future job and career opportunities and relevant learning provision, and providing access to advice and guidance to help them interpret the information.

funded, particularly when compared with arrangements for young people.

120. DfES has recently taken action to start to improve provision by joining up services at a local level, but some problems remain:[73]

- the quality of local services is variable and depends on the skills of the IAG partnership co-ordinator, the co-operation of local partners and the existing IAG services in an area;
- **learndirect**, the national learning advice line, and IAG partnerships do not always work together as effectively as they might. Greater clarity about their respective roles would help to underpin the complementarity of the services and also help secure a more effective referral of clients between the two; and
- the large number of local IAG brands results in publicity that lacks impact and has the potential to cause confusion amongst customers, making access difficult.

121. The original design for IAG partnerships focused primarily on reaching those with low skills and labour market returners and did not focus more widely on the needs of employers or WfD.

122. Research[74] shows that individuals tend to consider their employer as a primary source of information and advice about learning and development opportunities. The Union Learning Fund (ULF) has reported success to date in providing advice in the workplace; the challenge now is to provide similar services in the large number of small organisations that tend to be non-unionised.

123. For customers, availability of information about quality is not always easy to access. While inspection reports are available to the public, there is no readily available source of information on individual courses, their success rates in terms of achieving qualifications and subsequently helping students into employment, or helping them to make progress in their careers.

... and employers

124. The principal means of providing publicly-funded business advice and guidance to SMEs is the new Business Link network overseen by the Small Business Service (SBS), which started operating in April 2001. Other, primarily web-based initiatives, such as **learndirect**, provide WfD and training information on-line.[75]

125. But:

- penetration is poor – Business Links reached 7.1% of businesses in England between April and September 2001;[76]
- many employers see the services provided as confusing and fragmented; and
- employers value the importance of independent advice from organisations not wishing to 'sell' their own products.[77] This is a potential problem for both Business Links and **learndirect**, although it could also be regarded as an opportunity for both to work with SBS to develop more tailored solutions.

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[73] *Evaluation of Local Adult Information, Advice and Guidance Services*, DfEE Research report 241, National Foundation for Educational Research, November 2000.

[74] 27% of adults gave their employer as first place to seek advice on education and training. Alloway and Nelson, *Advice and Guidance to Individuals: a study for the Manpower Services Commission*, UDACE/NIACE, 1986.

[75] Ufi Ltd's 2001–02 target for SME engagement is 12,000 SMEs, and current progress of 11,500 against this suggests that it will be exceeded. Future targets are under discussion but **learndirect** expects to increase substantially its penetration of the SME market over the coming years.

[76] Business Links management information, quarters 1 and 2 of 2001/02.

[77] PIU Employer focus group.

126. An alternative source of business information and support for micro businesses is provided by the enterprise agencies of which there are 160. These are charitable bodies serving local communities. During 2000, these agencies supported approximately 45,000 micro businesses and 20,300 start-ups.

127. Employers also use private sector sources of advice such as banks, accountants and solicitors. These sources may not offer specific advice regarding the role of WfD in developing a business, although they have the potential to act as gateways to such information. The Small Firms Enterprise Development Initiative (SFEDI) has developed a range of business support materials for use by such business advisers working with SMEs.

Business networks[78] are weak...

128. DTI estimates there are over 500 business networks in the UK (covering more than 180,000 companies) involved in a wide range of activities. These range from networks established to address specific, short term problems to long term collaborative arrangements. The SBS, through its Best Practices Services (CONNECT, Benchmark Index and Inside UK Enterprise) works with many intermediaries, including its Business Links operators, private consultancy, accountants, etc., offering a further delivery mechanism for the WfD message.

129. Networks offer businesses a wide range of opportunities, including scope for collaboration in the provision of WfD through:

- information sharing and mutual encouragement;
- collaboration on particular tasks or business projects;
- collaboration on negotiating with providers of development; and
- collaboration on research and development and leveraging external support.

130. The principle behind networking is to encourage self-help and peer-group support and learning (see Figure 20). Networks, however, can also enable Government to tap into large numbers of companies relatively easily.

131. Business networks in the UK are perceived to be poor, with limited penetration or involvement, particularly of smaller firms. Reasons for this failure include a lack of leadership, funding, pressure of time and resources, and a perceived (or actual) lack of value.

132. Involvement in networks seems, however, to be growing with a recent CBI survey[79] showing three-quarters of companies had been involved in collaborative projects during

Figure 20: Group Training Associations

Good examples of effective training networks are in the construction and engineering industries and through Group Training Associations. These associations generally act as training providers for specific industries such as the seafish industry. They can help to overcome the barrier to WfD posed by the small size of many firms, but appear best suited to industries that are cohesive and have funding available to support the network (e.g. through levies).

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[78] The term 'network' is used to describe a collection of businesses and other organisations that meet and interact, with reasonable regularity, on subjects of mutual interest. These networks begin for many reasons and are often sponsored by a host organisation. Source – DTI.

[79] *A Question of Culture, Collaborative Innovation in UK Business*, CBI, Feb. 2001.

the preceding three years. However, much of this activity is not directly related to WfD.

133. Government interventions to date have been patchy. Employer Learning Networks established by the DTI and DfES have reported success but they are still primarily pilot projects. The recent creation of the Sector Skills Councils (SSCs) has the potential to establish strong sectoral networks at national level.

… and institutions fragmented

134. The UK has a large range of institutions which connect with businesses and provide a variety of services, including some related to WfD. Some are privately funded, others Government funded. Institutions can be a positive force for promoting best practice and WfD to their members as well as representing members' views on such issues to Government.

135. Membership based institutions in the UK have been found to be fragmented and inefficient[80] with around 1,600 trade associations in existence making it difficult for Government to hear a representative voice from employers. UK membership data is patchy but PIU research suggests that as many as 2 million companies (mostly sole traders and partnerships) are not members of any organisation.[81]

136. Most European countries have a stronger network of employer organisations, underpinned by statutory arrangements,[82] which are important contributors to the WfD system. The strength of such networks is partially thought to result from the greater prevalence of collective bargaining.[83]

137. In the US, in the absence of Government-funded organisations, private bodies (for example, Chambers of Commerce or Neighbourhood Business Associations) compete for membership fees and project-based Government funding and this, together with aggressive marketing and recruiting, results in fairly high levels of fee-paying membership.

138. Neither the European nor the US model would necessarily be suited to the UK, given cultural differences. However, without strong networks and institutions, many employers are unrepresented and cannot readily access services and support.

Human capital accounting is in its infancy

"There is a guy called John Ruskin, poet and artist and all the rest of it, he seemed to regard the people of this country as 'these are my jewels'. It seems to me that the government ought to regard its people as its assets, so they ought to be the ones thinking that the money invested in them now, will spin back a reward later on."

MORI/focus group research

139. Information relating to how organisations invest in and value their staff (including expenditure on WfD) is not routinely reported as part of the annual accounts (some companies may choose to provide such information). At present, there is no standard accounting methodology for valuing such investment to enable it to be considered as an asset of the organisation. Consequently, there is limited understanding or interest amongst the investment community in human capital accounting.

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[80] *The Business of Representation: The Modern Trade Association*, DTI, March 2001.

[81] CBI membership data, Trade Association Forum, Federation of Small Businesses, British Chambers of Commerce.

[82] Several European countries, notably France, Germany and Denmark, have statutory membership of Chambers of Commerce. See D. Ashton and J. Sung, *Lessons Learnt from Overseas Experience* at http://www.cabinet-office.gov.uk/innovation/2001/workforce/overseas.shtml.

[83] W. Streeck, 'Skills and the Limits of Neoliberalism: the Enterprise of the Future as a Place of Learning', *Work, Employment and Society* 3 (1), 1998; D. Ashton and F. Green, *Education, Training and the Global Economy*, 1996; and C. Crouch, D. Finegold and M. Sako, *Are Skills the Answer?*

Such investment does not generally form part of the valuation models used by investment companies[84] when making decisions on behalf of traditional investors.

140. This is an issue that is starting to be explored by various accountancy bodies and academics worldwide and has also been examined by OECD through a series of papers and an international symposium held in 1999.[85]

Cost and time are important barriers to participation

Cost

"If you think education is expensive, try ignorance."
Derek Bok, former president of Harvard University

Individuals

141. The cost of participating in a course for an individual can include expenses such as childcare for the hours of study, transport to the place of learning, books and registration fees, as well as course fees and potential lost earnings.[86]

142. Capital constraints limit the extent to which individuals can raise loans, either to pay for the necessary fees and up-front costs of formal WfD, or to make up for lost earnings. The returns from training for any individual are uncertain. This impacts on lenders' willingness to lend.

143. Unlike physical investments, human capital cannot be sold, and does not provide collateral for a loan. However, it is possible to take out Government-supported Career Development Loans (CDL) administered by the banks: around 18,000 are taken out each year.[87]

144. Government funding arrangements are complex with different support regimes available for different students depending on age, location of training and type of training. This complexity has contributed to a system that is perceived as inflexible and difficult to access.

145. The main sources of support in FE are Access Funds and the Childcare Support Fund both of which are purely discretionary. While amounts are increasing,[88] amounts granted are low, and are not received by all students who would benefit from them. For example, in 2000/01 18,000 students benefited from childcare grants of approximately £1,300 each while the number of post-19 full time students with dependent children was over 40,000.

146. Individual Learning Accounts (ILAs) were established to be universally available, allowing discounts of 20% on courses (80% on some IT and maths courses). Take-up was high, but the specific impact on WfD remains to be demonstrated. ILAs have now been withdrawn in England.

147. New Deal programmes and Work-Based Learning for Adults offer opportunities for individuals to undertake formal education and training whether outside or within employment under the guidance of a Personal Adviser.[89] Jobseeker's Allowance

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[84] "...There is an enormous mountain to climb to convince the investment community that they should be paying more attention to HR indicators...", PIRC report to Focus Central London, March 2001.

[85] International symposium on measuring and reporting intellectual capital: experience, issues and prospects, Amsterdam 9–11 June 1999.

[86] C. Callender, *Hardship of Learning*, 1998.

[87] CDLs are available for anyone aged 18 or over to cover 80% of course fees and related expenditure for any full time, part time or distance learning course as long as it is vocational and lasts no longer than two years. DfES pays interest on the loan for the length of the course plus one month.

[88] FE learner support funds total £102m for 2001/02 of which £60m has been allocated as FE Access Funds; the majority of the remainder is for childcare. The equivalent figures for 2000/01 were £89m with approximately £55m representing Access Funds.

[89] The Full Time Education and Training Option and the Employment Option both offer training opportunities, the latter in conjunction with employment.

rules currently allow an individual to study part time without losing benefit, but that individual must be available for work. The Employment Service/Jobcentre Plus (ES) already offers jobseekers information and advice about studying opportunities.

148. There is a substantial contrast between the maintenance support offered in Higher Education (HE) and that in Further Education (FE). Some learner support in HE is in the form of grants to particular groups but much is in the form of income-contingent loans. This reflects the higher rates of return to the individual from HE compared with much FE.

Employers

149. For employers, the cost of providing WfD can be low in terms of course fees for formal training but can be high in terms of lost production and supervision costs. The help available to cover such costs is limited.

150. For SMEs, cash flow is a key driver of daily decision-making. Investment in WfD may not seem like an immediate priority when cash flow is tight and may not be overtly encouraged by the banks and advisers that typically deal with small businesses. The NSTF quoted evidence[90] showing that the cost of training was the main discouraging factor for 43% of small firms.

151. For SMEs, support is available via the Small Firms Training Loan, administered by the banks. However, take-up has been extremely low: 581 loans since 1994.

The only other direct financial support available to employers is via the ability to offset training costs against taxable profits for the purposes of calculating corporation tax for incorporated businesses and income tax for unincorporated entities.

152. This does not greatly benefit those organisations:

- who report taxable losses; or
- who pay tax at the small companies rates or the lowest rate of income tax.

153. Further indirect support to business is provided through the Adult Development Rate of the National Minimum Wage, which helps employers to meet the cost of training by enabling them to employ adults at a rate lower than the National Minimum Wage if under 22 or, for workers of 22 and over, for the first six months of a new job if they are receiving accredited training (see Figure 21).

154. There are also new services and course offerings provided electronically through **learndirect**. E-learning can provide the timely and flexible solutions to immediate problems required by small and medium sized employers.

155. Larger organisations can better absorb the cost of WfD. However, even they are likely to cut back expenditure if business performance slumps or cash flow problems arise. The public sector may be more immune to recessionary pressures;

Figure 21: National Minimum Wage rates

Main (adult) rate for workers aged 22 and over

£4.10 per hour (from 1 October 2001)

£4.20 per hour (from 1 October 2002)

Development rate for workers aged 18–21 inclusive

£3.50 per hour (from 1 October 2001)

£3.60 per hour (from 1 October 2002)

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[90] 1995 Skill Needs of Small Firms in Britain survey, PAS for DfEE.

however, even in this sector, training budgets may be cut if financial settlements are tight.

156. The voluntary sector has a particular problem in this area in that it is often difficult for voluntary organisations to spend donated resources on costs, such as training, rather than directly on their charitable objectives.

Time

Individuals

157. Qualitative research for the PIU undertaken by MORI suggests that a frequently cited barrier to development by individuals is lack of time; this is echoed in the NALS research (quoted at paragraph 109). Individuals experience problems balancing family, home and work commitments.

158. In many of the professions, 'continuing professional development' is a formal requirement and, as such, employees are able to take time off for it. Most low or medium skilled employees are not, however, under such an obligation.

159. Learning needs to be provided at a time to suit the consumer, not the provider. Many providers are already recognising this need, and are providing training in 'bite-size' chunks, at workplaces and outside working hours. New technologies have real potential to make opportunities for WfD available to individuals at a time and place suitable to them. However, technology is only one of a range of tools that needs to be considered.

160. Government has put in place a right to time off for training as part of the employment option in the New Deal for Young People. This consists of one day of training per week, and while it is part of the employment option, which has a higher success rate in job placement than full-time education and training, it has not proven very popular with employers. This is primarily because the one day a week training is not perceived to be directly related to the needs of the job and may indicate that the employee is not yet capable of doing the job. The Government has also introduced a right to time off for 16–17-year-olds who have not yet achieved a level 2 qualification. Early evaluation suggests that take-up of this right has been low.

Employers

161. There is a perception amongst employers – and a very real problem for SMEs – that time off for the training of employees is expensive and difficult to arrange. Employers' approaches to time off vary greatly depending on their specific commitment to training. Concerns about time commitments may arise from broader staffing issues including the tendency to operate with minimum possible headcount to create 'leaner' organisations and their ability to manage absences.

Market failures are compounded by Government failures of various kinds

162. Aspects of the performance of the education system have led to a relatively poorly qualified workforce, and a disproportionate number of employees lacking basic skills.

163. Other Government failures identified in the area of WfD are set out below.

There is a perceived lack of an integrated national strategy...

164. Over time, a bewildering number of initiatives have been introduced: these are listed in Annex 11.[91] In the past, these have not been linked by an overarching strategy. Local delivery bodies and the targeted

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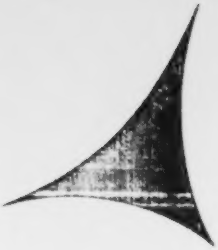
[91] Annexes 8–12 are available on the PIU website, http://www.cabinet-office.gov.uk/innovation/2001/workforce/developments.shtml



customers consistently express confusion regarding the number and workings of these initiatives.[92]

... and a potential lack of clarity about who is responsible and accountable for WfD

165. At a **national** level, responsibility for increasing social inclusion and productivity is shared primarily among four Government departments:[93]

- DTI with the RDAs and the SBS supports business competitiveness and productivity.
- DfES and its key agencies and partners, including the LSC, the Qualifications and Curriculum Authority (QCA), Sector Skills Development Agency (SSDA) and Ufi Ltd, invest in education, learning and skills.
- DWP, through the Employment Service/Jobcentre Plus and the New Deal programmes, focuses on creating employment and career opportunities.
- HMT addresses the productivity agenda.

166. Each of these departments operates its own performance measurement framework and PSA targets encompassing WfD. There is currently no shared strategy backed up by common targets. Annex 8 lists the key targets in this area.

167. The recently established LSC has a statutory responsibility for the production of a national strategy on WfD. But it cannot do so in isolation from the many other bodies involved.

168. At **regional** level the nine RDAs are developing 'Frameworks for Regional Employment and Skills Action' (FRESAs) plans which will provide a single umbrella plan for skills for their regions.

169. These have the objective of ensuring that:

- every individual has the opportunity and skills to find employment; and
- employers get the recruits they need with the skills they require (including basic skills).

170. The LSC does not have a regional presence. It and the RDAs have recently signed a Memorandum of Understanding that articulates a vision for co-ordinated WfD in the regions and local areas. It is likely that the RDAs will adopt a regional co-ordination role while the local LSCs will invest resources and deliver services at a local level.

171. At **local** level there are 47 local LSCs. A variety of agencies present at a local level also have an interest in WfD such as the SBS, the ES and local authorities. Whilst there are plenty of examples of good joined-up working, it is only recently that memoranda have been agreed between the main agencies covering roles, responsibilities and working arrangements to ensure that good practice is followed throughout the country (ES to sign in December 2001). Examples can still be found of local strategies and working practices not in harmony.

172. The planned establishment of SSCs and the SSDA will provide a sectoral view on strategic issues. These bodies have the potential to influence demand for development throughout their sectors and to provide Government with the intelligence needed to shape the future WfD agenda. To ensure their success it is essential that the experiences gained through the NTOs be taken on board and that they are properly aligned with the LSC and RDAs. DfES is currently developing, with partners, a model framework to help build SSCs' priorities into the planning mechanisms of partners.

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[92] "Although there was substantial support for the principle of a more skilled workforce, this was matched equally by the level of confusion experienced by the participants." PIU focus group, Doncaster.

[93] A range of other departments maintain performance targets that address particular groups – such as the media industry in the Department for Culture, Media and Sport.

173. The challenge is to join up the work being undertaken at regional, local and sectoral level under the auspices of the LSC's national WfD strategy and to ensure that there is a shared understanding of accountability for strategy, systems and delivery.

The focus of departments is on intermediate targets rather than the outcomes they are seeking to achieve

174. One of the challenges for Government is to develop outcome measures that enable the success or otherwise of policies to be evaluated. Existing performance measures (see Figure 22) give rise to a number of problems.

175. DTI targets focus on broad measures of productivity and competitiveness. In contrast, DfES targets focus closely on participation and achievement in learning. The DWP targets in this area focus on numbers placed in work. None of these targets explicitly focus on WfD although it is implicit in all three.

Labour market intelligence services should be improved to support strategic planning

176. Excellent Labour Market Intelligence (LMI) is crucial to the operation of a demand-led system. The customers of this information are:

- learners, who need information about courses to make choices;
- firms, who may use information to plan for expansion, relocation, recruiting;
- staff in agencies with responsibility for delivering local targets who must have reliable signals of supply and demand; and
- Government, which is responsible for setting a strategic direction for policy and supporting intelligence on what works and why.

177. What is needed is a system of LMI that satisfies these requirements by:

- collecting and collating useful, reliable and timely information on a consistent basis across the country;

Figure 22: Problems arising from existing performance measures

- It is not obvious which departmental indicators measure WfD, as distinct from learning, training, or other provision. It is, therefore, difficult for departments and their agencies to invest resources in ways that will improve WfD performance.
- Projects that advance WfD generally but do not make a direct contribution to departmental objectives, particularly at local level, may not be pursued.
- Existing measures do not emphasise outcomes, particularly customer satisfaction, making it difficult for departments and agencies to evaluate and improve the quality of their programmes.
- There is no measure that connects the skills and productivity agendas – measuring whether skill development rewards individuals in the workplace through promotions, better jobs, higher wages, or simply increased labour market bargaining power.
- Without consistent performance measures across departments, it is difficult to track customer progress as an individual moves from one department's programmes to another's.

- maintaining a set of key indicators that are consistent across local areas and can be aggregated to show the national picture; and
- supporting supplementary data collection at regional and local level in order to provide a solid basis for good local decision making.

178. The NSTF final report recommended that Government should establish a national system for collecting and disseminating information on the labour market and skill needs, led at a strategic level by the DfES and at operational level by the LSC.

179. There is already a plethora of LMI collected, often more than once, but this is rarely transformed into relevant or useful 'intelligence'. Current information is variable in quality, not always capable of being collated, and difficult on occasion for users to access and understand.

180. There are already structures in place to bring together good sources of qualitative information (e.g. the observatories developed in some RDA regions). What is needed is a single structure, which underpins the collation, interpretation and dissemination of LMI. Much work has been undertaken in this area in the past and the difficulties of getting it right should not be underestimated.

181. With the LSC in place, there is now a concerted effort to collect, analyse and disseminate labour market and skills information and to ensure that planning and funding authorities such as the LSC and RDAs have access to available intelligence. It is essential that this process is properly scoped, reliably carried out, and collated and disseminated on a consistent basis at national and local levels.

Government funding mechanisms do not necessarily support the operation of the WfD market

182. The LSC has a combined budget of £5.5bn in 2001–02 rising to £6.4bn in 2003–04 (excluding funds for school sixth forms which transfer to the LSC from April 2002). The PIU analysis paper[84] set out a detailed description of the principles, key features and budget of the LSC funding system.

The current publicly-funded system

183. Under the current (until 2001/02) system, the majority of funding (85%) to FE providers was allocated through national formulae based on standard units of provision (see Figure 23 for a description of units). This system has been in operation since 1994 during which time the level of funding per unit has gradually converged, with the majority of colleges now receiving the same funding levels per programme delivered.

Figure 23: FE unit-based formula funding 1994–2002

Each FE course and each type of provision is allocated a set number of 'units' depending on factors such as its length, complexity and likely cost. Each unit attracts a monetary value. The number of units per course and volume associated with each programme indirectly reflect local difference in cost of provision. The monetary value of the units is paid to colleges at different stages during the year, on 'entry', 'on-programme' and 'achievement'. This regime is based on average costs with has weakened the link between costs incurred and income received by individual colleges.

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[84] http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml.

184. In addition to its key objective of converging funding levels, this regime also sought to deliver substantial increases in FE enrolments. However, because colleges were allocated volumes of funding based on predictions of the activity levels they could generate, surplus and deficit units were common and the rebate mechanisms in place did not assist in maintaining financial stability.

185. In an effort to encourage private sector contribution, college provision of employer-specific training attracts lower levels of Government funding. However, there remains little evidence of substantial private contribution to most colleges' overall budgets, either by individuals or employers, with colleges often forfeiting fees from employers and individuals.

186. While this funding regime did address local needs to some degree through the strategic plan approval process, the absence of a direct link to the labour market made it difficult to take overt account of outcomes such as increased employability or wage gain.

187. This system is considered to have achieved its primary objective of ensuring that college funding levels converged. It has maintained a demand-led element and attempted to accommodate national and local priorities. However, it has not maximised its public investment and has taken too little account of key outcomes for individuals and firms. It will be replaced in August 2002.

188. In addition to the budget supporting the FE college system, the LSC maintains three other key budgets relevant to WfD:

- The £763m[95] Work Based Learning (WBL) budget for young people was transferred from the TECs to the LSC and is governed by an interim funding approach. For 2001–02 the LSC adopted national funding rates with some dampening and cushioning to minimise the impact on those providers who stood to lose significantly through a switch to national rates. This approach will continue in 2002–03 but dampening and cushioning mechanisms will be phased out.
- The £213m[96] budget for WBL for adults was transferred in its entirety from the TECs to the Employment Service in 2001. Although it no longer manages these resources directly, the LSC seeks to work closely with the ES to ensure that it complements national and local WfD strategies, and is used to maximise outcomes for individuals and firms.
- A £49m budget was specifically allocated to WfD for 2001–02, to be managed in line with WfD plans prepared by each local LSC. The bulk of this budget supports employer-based programmes, notably Investors in People.

189. The majority of the LSC's budgets for 2001–02 were allocated by predecessor bodies, such as the Further Education Funding Council (FEFC), to ensure continuity of provision and so that providers knew what their budgets were in advance of the start of the year. This has restricted the discretion of local LSCs to allocate funds in their first year.

190. This initial lack of flexibility was also reflected nationally where 16% of the LSC's overall programme budget was ring-fenced, and in the FE budget which, while not actually ring-fenced, is committed to the support of the FE college network. In addition, the opportunities for virement (transfer) between non ring-fenced budgets are restricted.

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[95] Primarily composed of the LSC budget for Modern Apprenticeships and level 1 and level 2 attainment for young people.
[96] To support Work Based Learning for Adults.

An amended system from August 2002

191. Discussions and consultation about future funding arrangements occurred during 2000 and 2001, leading to a new circular issued in October 2001 which provides a blueprint to govern funding arrangements from 2002. The general emphasis is on planning and allocation at local level, local targets rooted in local needs, an increase in flexibility across the overall LSC budget and within a reduced number of separate LSC budgets, and a review of the phasing of funding during the year. These changes build on those adopted during the 2001 transition year.

192. The aim of the new regime is to bring the disparate ring-fenced budgets for adult learning and WfD into closer alignment over time and to create a progressively more 'level playing field' between FE colleges and private providers, ensuring that neither are disadvantaged in the market. In particular, the amended FE funding system replaces the currency of funding units with allocations expressed in cash and learner numbers. This is intended to increase funding transparency and to provide incentives for increasing the quality of provision.

The quality of publicly-funded supply

193. The quality of provision available from publicly-funded FE colleges and private training providers is variable and there is a need to raise standards further across the board. The Chief Inspector for FE's report for 1999–2000 commented that in many colleges:

- quality assurance was not rigorous enough and/or staff do not apply agreed procedures consistently;
- franchised provision and short courses for employers received scant attention;
- the quality of work experience and training in the workplace was seldom assessed effectively; and
- insufficient attention was paid to reviewing the quality of part time and short courses.

194. Private sector providers also vary greatly in quality. The 2000–01 report from the Training Standards Council, which covers work-based learning, commented on the high percentage of providers (60%) who achieved at least one unsatisfactory grade at their first inspection in 2000–01, an increase of 10% from the previous year (it should be noted that this figure will also include FE colleges that provide work-based training).

195. This report summarised grades received by type of provider as shown in Figure 24.

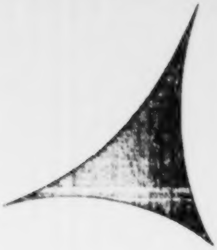
196. One of the key determinants of quality is the quality of the teaching staff. In many cases staff do not hold teaching qualifications (although all staff in FE colleges are now required to obtain such qualifications). A key issue is the lack of recent industrial or commercial experience of many lecturers. Inspectors' reports have also noted that the quality of part time lecturers was poorer than full-time, which is worrying when the proportion of part time lecturers is increasing.

Figure 24: Performance of work-based learning providers

Provider	Outstanding/good	Less than satisfactory
Employers	46%	11%
Other*	34%	18%

*the majority of whom are private providers (with a small number of not for profits, local authorities and FE colleges)

Source: Training Standards Council annual report of the Chief Inspector, 2000–01



Capacity

197. For a dynamic supply side to exist, sufficient capacity, both in terms of the numbers of providers and the capabilities of providers to meet needs, is essential.

198. Successful providers need to develop solid organisational infrastructures, including technology and management capacity. Private and voluntary providers may not have access to capital funds to support technology investment, while public providers may be able to access such funding through the standards funds. In addition, small non-public providers may find it more difficult to develop the organisational infrastructure required to support the self-assessment and quality regimes that accompany public funding. All providers may face the challenge of change management and the need constantly to develop new provision and new methods of delivery.

Qualifications are not responsive to employer and individual needs

199. The PIU analysis paper[67] described the importance of the NVQ framework as the basis for the Government's National Learning Targets. The QCA has done a great deal of work to develop a national qualification framework of which NVQs are a key part. This work has also seen the introduction into the framework of increasingly popular vocationally-related qualifications (VRQs). These include high-status qualifications offered by City & Guilds, the Business and Technology Education Council (BTEC) and the Royal Society of Arts (RSA), for example, which have not always been nationally recognised. The new Technical Certificates for Modern Apprenticeships (MAs) will also be included as VRQs. DfES is also about to introduce 'new generation' MAs.

200. Figure 25 sets out the benefits of qualifications.

Figure 25: Why have qualifications?

The benefits

Qualifications are beneficial to **individuals** because they:

- are a motivator, offering wage returns and status;
- enhance employability by providing recognisable proof of transferable skills;
- are a way of securing Government support for development; and
- can provide a licence to practise.

Qualifications are beneficial to **providers** because they:

- measure performance;
- provide a structure to programmes; and
- enable workloads to be managed.

Qualifications are beneficial to **employers** because they:

- provide a recruitment tool;
- enable assessments of skill needs; and
- are a way of securing Government funding and support for development.

Qualifications are beneficial to **Government** because they:

- measure skill levels;
- indicate ability; and
- provide a framework for funding.

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[67] http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml.

201. Two important trends are emerging in relation to the qualifications framework:

- the number of NVQs being awarded appears to have reached a plateau;[88] and
- the extent to which development activity by employers falls outside the NVQ framework. Figure 26 indicates that many employers provide qualifications other than NVQs, which suggests that employers may not be convinced of the value and benefit of NVQs. More importantly, Figure 27 shows that a significant number of individuals and employers are not engaging with the qualifications system at all, nationally recognised or otherwise.

202. Particular concerns relating to qualifications expressed by employers and key stakeholders in discussion with the PIU include:

- the lack of clarity about who is accountable for different parts of the qualifications system and the role of

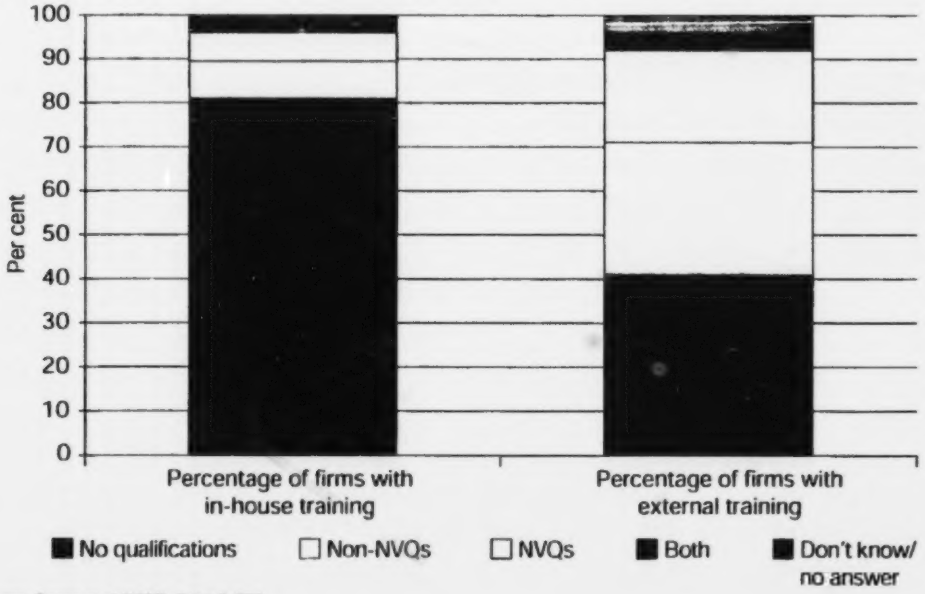
Figure 26: Registration on non-NVQ courses – City & Guilds[89]

For the year to the end of September 2001: Registrations N/SVQ 43% Other 57% (this includes general qualifications, Pitman single subject qualifications, vocational qualifications and client/customised provision).

(Not all vocational subjects have a registration process; therefore the above figures may not represent 100% of all courses taken.)

Source: Figures provided by City & Guilds

Figure 27: Worker qualifications from in-house and external training



Source: Curran et al (1997), Table 5, P96 employers and other industry networks, which has resulted in a lack of ownership of qualifications amongst sections of the business community;

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[88] Qualifications and Curriculum Authority.

[89] National statistics are not available for the percentage of registrations on non-NVQ courses (per QCA).

- the process of approving National Occupational Standards (NOSs) (which inform the content of NVQs and all other vocational qualifications in the framework) can be slow, overly complex, insufficiently responsive to employer need, and lacking in strategic direction. On average, it can take 18 months to gain final approval of new standards, which then have to be converted into qualifications by awarding bodies.[100] The sequential nature of this process undermines the responsiveness of NOSs to changing sector skill needs;
- the routes to the accreditation of qualifications which lie outside the national framework, especially 'vendor' qualifications such as Microsoft IT awards, are seen as bureaucratic and slow; and
- the linkage of funding to complete vocational qualifications rather than individual units discourages employers who do not wish to commit to a full NVQ/VRQ from supporting development. Several recent reports have pointed to the advantages of a unit-based funding approach.

203. Other research, such as *Learning Works,*[101] has highlighted the potential for even greater flexibility being introduced to the system via a framework for credit accumulation and transfer (CAT), such as those currently being introduced in the devolved administrations. CAT systems provide an assessment of the **volume** of learning completed, enabling individuals to pursue diverse learning pathways, mixing and matching different courses to suit their needs, and to build a full qualification.

204. DfES and the QCA have recently reviewed some of these issues through their review of the process by which NOSs are approved.[102]

205. Figure 25 indicates why qualifications are important for a variety of stakeholders. Nevertheless, there is a more fundamental question as to the future role of qualifications in a changing workplace. The need for 'softer skills' such as communication and team working is likely to increase, and with that, so will the value of informal workplace learning. This may also be brought about by new methods of organisation in the workplace, i.e. flatter structures, more team-based operations, greater diversification of job roles, and other changes to the nature of work and the workplace.

206. This highlights the need for qualifications to be kept up to date and relevant, but also indicates that formal national qualifications may not be the best tool for development in future situations. DfES's experience of working with key skills qualifications suggests that a spectrum of 'harder' and 'softer' skills can be fostered through a variety of approaches to assessment.

Moving it on

Breaking out of the low skills equilibrium involves addressing cultural factors, market and Government failures

207. The UK has a significant proportion of the workforce without basic or intermediate

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[100] J. Hillier, *An Independent Review of the UK National Occupational Standards Programme*, 2001.

[101] H. Kennedy, *Learning Works: Widening Participation in FE*, FEFC, 1997.

[102] A strategic group chaired by Sir Dominic Cadbury recommended a review of the Standards Programme after a period of approximately two years following its establishment. This review was set up by QCA/SQA as an independent exercise chaired by John Hillier, Head of Personnel at Weetabix Ltd and Chair of the CBI's Learning and Skills Panel, and it was carried out between April 2000 and June 2001.

skills. Whilst progress is being made in raising qualification levels, the evidence suggests that low levels of skill, particularly for adults, will continue to be a defining feature of the economy.

208. This chapter has argued that an integrated approach is required to break out of the low skills equilibrium and raise the game of UK business. Action is needed simultaneously to:

- bring about a change in culture which can raise the demand for more skills on the part of employers and individuals;
- address market failures to provide high-quality information, remove barriers to participation and assist in the development of quality provision, thus increasing demand and raising the supply of skills; and
- articulate a clear Government strategy underpinned by more joined-up structures, well-targeted spending and relevant measures of performance.

The way forward is a demand-led system...

209. Raising demand is the key to breaking the low skills equilibrium. An increase in demand from employers will encourage individuals to train if the right rewards and recognition are available. Raising demand from individuals will put pressure on employers to make use of individual skills and will enlarge the availability of skilled labour in the market as a whole.

210. A demand-led system will change the dynamics of the WfD market, encouraging participation by individuals at all levels and by employers regardless of size by enabling them as customers to make choices and take control of their own development.

Getting individuals onto the development ladder

211. There is a strong case for Government intervention to enable lower skilled individuals to participate in the demand-led system:

- the lack of lower level skills is a result of Government failure in the past to provide adequate compulsory education up to the age of 16;
- rising skill levels in the economy mean that those with lower skills face lower lifetime earnings and career progression prospects. The proportion of jobs requiring NVQ levels 1 and 2 has increased while there has been a fall in the number of jobs that can be carried out without any qualifications;[103]
- skills at this level are transferable rather than specific to individual firms, which can make employers reluctant to invest in WfD for low skilled and often low paid individuals; and
- low skilled individuals are more likely to be low paid and to be deterred from pursuing a qualification by the cost involved. A disproportionate number of those without a level 2 qualification work in small firms, which are less likely to engage their employees in development, often also for reasons of cost and constraints on their cash flow.

212. Tackling basic skills must be the top priority. However, our long term aim is to ensure that all adults have the opportunity to achieve a level 2 qualification. The Pre-Budget Report emphasises the importance of progression in raising individual skill levels.

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[103] F. Green et al, *Are British Workers Getting More Skilled?* in A.B. Atkinson and J.Hills (eds) Exclusion, Employment and Opportunity CASE Paper no.4, LSE, 1998.

Within this vision Government should prioritise the lowest skilled...

213. The Government is committed to raising the current basic skills level in the UK. That commitment is based on both the benefit to people's personal lives and fulfilment, as well as the benefit to the country as a whole.[104] The Adult Basic Skills Strategy *Skills for life*,[105] arising from the 1999 Moser report,[106] was published earlier this year. It promises that 750,000 adults will improve literacy and numeracy by 2004.

214. Basic skills act as the foundation for all further learning. Without these skills, individuals are, in many cases, unable to participate effectively in the workforce. Nor can they access further WfD since they lack the basic tools to undertake it. Basic skills are therefore a springboard to further development.

... offer all the opportunity to achieve level 2...

215. The long term aim should be to ensure that all adults have the opportunity to achieve a level 2, which is the equivalent of five A*–C GCSEs or vocational equivalent.

216. Government strategies in schools should ensure that increasing numbers of school leavers reach this level. The target of this report is the stock of adults in the current workforce who have missed out.

217. The case for Government support, which has been made by many, including the CBI/TUC and the NSTF, is based on the benefits to the economy as a whole if more individuals attain a level 2 qualification. Private returns for individuals or employers at this level are less than the wider returns to society at large. Beyond level 2 the private returns to individuals and firms are much greater and the case for expecting them to invest in their own development is correspondingly greater. Therefore it would represent a significant step forward in raising skill levels right across the workforce, allowing individuals to be able to navigate through and make use of the opportunities provided by a demand-led system.

... and enhance the ability to focus on higher skill levels when appropriate

218. While skill shortages are reported at level 3, the case for Government intervention is much weaker as the returns from private investment at level 3 are higher and less variable. However, there may be certain circumstances (specific skills gaps, business failures) where intervention at this level would be appropriate (e.g. where it would support inward investment). Therefore a discretionary ability for local LSCs to fund level 3 attainment or higher may be appropriate. Chapter 7 discusses discretionary funding arrangements further.

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[104] *A Fresh Start*, op. cit.

[105] Rt Hon David Blunkett MP, foreword to *Skills for life*, op. cit, March 2001.

[106] *Skills for life*, ibid.

5. WfD IN 2010: A NEW APPROACH

Summary

- This report's vision for WfD is:

  "In 2010, the UK will be a society where Government, employers and individuals actively engage in skills development to deliver sustainable economic success for all."

- This vision can best be achieved by moving towards a more demand-led approach and aligning the WfD infrastructure with that approach. A demand-led system can be expected to generate greater and better informed demand and more responsive supply within a supportive and flexible institutional framework. It has the potential to deliver both increased productivity and greater social inclusion.
- Individuals, employers and Government all have a role to play in moving towards this system.
- A number of different instruments are available to Government in moving towards this vision, including financial and status incentives, dissemination of information, advice, guidance and best practice.
- The new approach to WfD set out in this report is intended to initiate a 'virtuous spiral' in which employers and individuals value development, seek out opportunities, invest in development for themselves and their firms, realise improved productivity, share rewards, and continue to develop.

Introduction

219. This chapter outlines a vision for WfD, its features and advantages, and describes the roles and responsibilities of Government, employers and individuals in realising that vision. It shows, not only how the strategy presented will address the failings of the current system, but how it will also lead to significant changes in cultural attitudes to the demand for, and delivery of, WfD.

Setting the scene

Flexibility and adaptability are vital for the economy of the future

220. Economic and industrial change increasingly demands a workforce that is flexible and adaptable. For business, retraining and redeploying employees to support more efficient and effective operations, and integrating new technologies, will be crucial to remaining competitive.

221. For individuals, lifelong learning and retraining will be essential for both employability (including reducing periods of unemployment) and career progression. Employees will need to be autonomous, self-motivated learners; in future, knowing how to improve one's own learning and performance will be more important than ever before. To participate and progress in the future workplace, individuals will need to have basic skills as a minimum.

222. WfD strategy and systems must be designed to meet these business and individual needs.

Other countries adopt diverse approaches

223. Different countries respond to this challenge in different ways (see Annex 9 for more details[107]) and their effectiveness has to be seen in the context of the culture in which they operate. In Germany, the apprenticeship system is strong with some 350 different options available to young people. Training is offered both on and off the job. Typically, apprentices receive wages at around half the standard rate and there is comparatively little direct financial support from the state (parents often support their children through the apprenticeship period).

224. The US has a strong culture of self-advancement with very little state funding for development. The success of the system relies on the fact that most individuals take responsibility for their own development and are prepared to finance it themselves (often borrowing heavily to do so).

225. Both of these examples imply a different type of equilibrium in the labour market – in the US, the returns to development must be well understood and immediate to justify the individual investment. In Germany, young people have to accept low wages for the duration of their apprenticeship rather than start to look for better pay as soon as they have acquired any skills. The US model may be better placed to respond promptly to changing demand from individuals and employers, whereas the structures underpinning the German model are less flexible. However, the German model recognises the social returns from training whereas the US model leads to a high level of basic skill problems. Where on this spectrum do we wish to be?

226. The following sections of this chapter therefore articulate a vision and the outlines of a future strategy for this country.

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[107] For more detail, see D. Ashton and J. Sung 'Lessons learnt from Overseaes Experience', op. cit.

Figure 28: Principles underpinning the development of Government policy for WfD

- WfD should focus on responding to employer and individual demand.
- There needs to be a clear and shared understanding of the roles and responsibilities of Government, employers and individuals.
- A package of financial and status incentives, regulation and other measures are needed to overcome the barriers to WfD faced by individuals and employers, and to help realise the full benefits of investing.

The vision

227. The project's vision for the future is

> *"In 2010, the UK will be a society where Government, employers and individuals actively engage in skills development to deliver sustainable economic success for all."*

228. This vision needs to be underpinned by a number of clear principles if it is to be made operational (see Figure 28).

229. These principles for WfD are wholly consistent with the principles for improved public service delivery articulated by the Prime Minister (see Figure 29).

Developing a new strategic approach

What should an effective system of WfD do and what would it look like?

230. The three key attributes of an effective WfD system are:

- **responsiveness to changing demands over time.** Demand will change during different stages of the economic cycle and as structural changes take place in the economy. A well-designed system will be able to respond rapidly to short term needs (like local redundancies) as well as making longer-term adjustments (for new skill requirements like ICT or biotechnology). Most importantly, it will be able to balance the demands of employers, individuals and society;

Figure 29: Key principles for the delivery of public services including WfD

- **Clear national standards and entitlements** – with a simpler structure for employers and employees to understand and use
- **Devolved delivery to the front line, to enable innovation** – moving increasingly away from a top-down, producer-driven system
- **A flexible approach to employment and rewards** – enabling public and private organisations to fit training into their own business development needs
- **Greater choice for end-users** – putting more power in the hands of employees – a demand-led system

Source: Prime Minister's speech, Labour party conference, 2 October 2001

- **cost-effective delivery of high-quality development.** Provision that is delivered where, when, and how people and firms demand it, at a reasonable price and which makes a measurable difference; and
- **flexibility.** A system that suits the needs of a wide range of employers and individuals must be flexible to satisfy different learning styles.

Sources of demand

"The more effectively a WfD programme meets employer/workforce needs, the better its ability to help jobseekers succeed in the labour market. And what goes for a particular programme is true for the system as a whole: a system that satisfies employers will be a system that is better able to meet the needs of jobseekers for quality jobs, sustained employment and career advancement."[108]

231. Demand for WfD comes from three main sources – employers, individuals, and the economy/society. Individuals demand development for a variety of reasons, usually a combination of economic benefit and personal fulfilment. Individuals may satisfy their demand by undertaking training independently of their employer or they may rely on their employer to provide or fund it.

232. Employers demand skilled workers because it enables them to achieve their business goals more effectively and profitably. They can satisfy their demand either by hiring skilled workers or by developing their existing workforce and will do whichever they believe is most cost effective.

233. Societal demand could be in support of a policy agenda (for example, social inclusion – a policy goal to reduce inequality leads to a need for targeted development for the excluded) or could be as a result of market failures (for example, the economy as a whole needs more people trained in ICT skills but the market is not providing them).

234. In the past, emphasis has tended to be on supply. The problem with this approach, however, is that it is not well connected to the marketplace and to meeting employer needs. This becomes more problematic as the needs of the economy generally and of individual employers change more rapidly. Training based around the workplace is effective both because it is more attuned to the demands of the workplace and because the skills developed are more likely to be used and hence reinforced.

235. The supply of WfD in England comprises a publicly-funded network of over 400 FE colleges, the **learndirect** network which currently numbers 1,347 **learndirect** centres, and a large number of privately run for-profit and non-profit organisations that compete for business. Another source of supply is in-house provision within firms and the public sector (normally within large organisations). Both private and publicly funded suppliers can access public funding for the delivery of specific packages or courses (like the New Deal or Modern Apprenticeships).

236. In a system that is primarily centrally planned, managed and delivered through a Government owned network, there may be a lack of incentive to innovate, resulting in a reduction in quality unless a strong quality assurance system is in place. Such a system is unlikely to encourage dynamic partnerships between providers and local employers to meet local need.

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[108] M. Seltzer and R. Kazis, 'Toward a "Demand-Led" WfD System: Rationale, Definition and Implications for Government Roles'. Paper prepared for the 'Welfare to Work: New Solutions for the New Economy' UK/US Symposium, September 2000.

The case for a more demand-led approach for WfD

237. A more demand-led approach has a number of desirable features:

- Purchasing power is in the hands of the customer (individuals and employers), leading to greater choice and empowerment.
- Provision is more responsive to individuals, offering benefits in terms of quality, cost, range and availability.
- There will be alternatives and hence escape routes from poor or failing providers.
- There should be increased satisfaction with WfD services received.
- Choice and competition will stimulate innovation.
- Government frameworks will support and facilitate the system (in areas such as information provision), intervening where failures occur or where specific social inclusion issues arise.

238. These features should combine to produce more highly motivated individuals who are more likely to undertake development, and employers who are more likely to invest in it.

How do we get to this demand-led system?

There are three key areas to be addressed...

239. The analysis pointed to three key causes of the WfD system's current failures including:

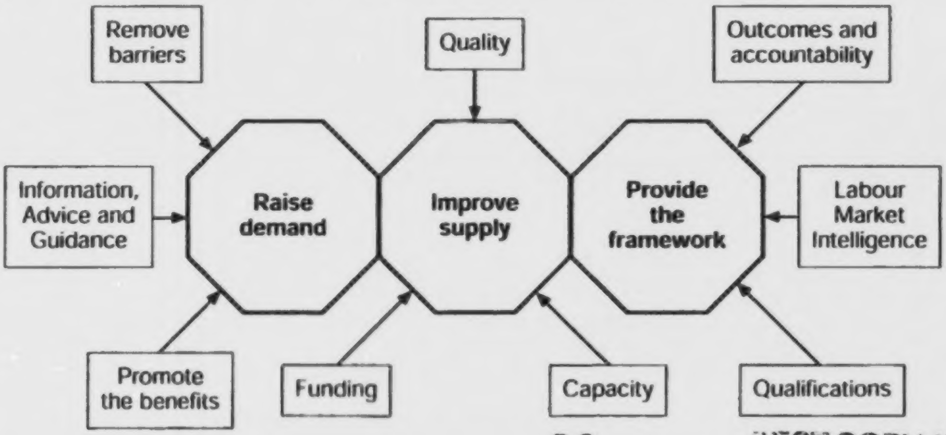
- insufficient demand;
- patchy quality of supply; and
- the absence of a clear and consistent Government framework.

240. In addition, the roles and responsibilities of individuals, employers and Government also need to be defined.

241. A solution, therefore, needs to be focused on these areas, as Figure 30 illustrates. It also needs to clarify the roles and responsibilities of individuals, employers and Government.

1. Developing greater and better-informed demand for development amongst employers and individuals, focusing efforts on low skilled individuals and small and medium sized firms where they have the potential to make the greatest impact.

Figure 30: Action needed to put in place a demand-led system for WfD


Remove barriers
Quality
Outcomes and accountability
Information, Advice and Guidance
Raise demand
Improve supply
Provide the framework
Labour Market Intelligence
Promote the benefits
Funding
Capacity
Qualifications

242. Creating the right market conditions in which demand can be tapped or stimulated is critical to the vision. Many small firms and individuals with low skill levels are not in a position to demand high quality development as shown in Chapter 4: the benefits are unclear; the barriers too great; and the responsibility seems to be someone else's. However, the effects of individuals and employers raising their demand could be seen through the wider gain to the economy and society from having a more skilled workforce. This provides a broad justification for Government intervention and can best be supported by a demand-led approach which puts greater purchasing power in the hands of individuals and employers; improved provision of high quality IAG; and action to remove barriers to participation (such as time and cost).

2. Making supply more responsive to demand, focusing efforts on bringing new providers into the marketplace, assisting the exit of providers that have not performed well, and rewarding innovation and creativity in content, delivery and partnering.

243. Provision of learning and development must meet the needs of employers and individuals rather than being formulated and delivered at the convenience of the provider. Shifting a greater share of purchasing power into the hands of individuals and employers will create a more competitive environment for providers. The proportion of courses more clearly matched to need should increase, improving services to individuals and creating incentives for new entrants to the market.

244. Supply-side improvements and increased choice should impact on firms and individuals at all levels, and particular interventions should ensure that hard-to-reach firms and individuals benefit from these improvements.

3. Providing a flexible institutional framework that supports the development of innovative firms, multi-skilled workers, and healthy local economies and labour markets.

245. Clear policy goals and corresponding performance and accountability systems should underpin the development of an institutional framework encompassing all relevant Government departments and agencies. The accountability system should promote the delivery of increased demand and ensure responsive, high quality supply at national, regional and local levels.

246. Institutions have to be flexible enough to adapt to the changing demands of local labour markets, as well as help identify industries or areas with serious skills shortages, gaps or needs. The new framework should provide the basis for the production of relevant information and intelligence that will help individuals and firms make good decisions about development, and provide suppliers with high quality information on which to plan and develop new provision. Specific interventions may be required to ensure that under-represented individuals and firms will be able to access these resources.

4. Setting out the roles and responsibilities of individuals, employers and Government as a basis for working in partnership to deliver a solution.

247. Employers, individuals and Government can best create a successful WfD system by working in partnership. While each has distinctive needs and can make different contributions, best results will arise from the successful matching of roles and responsibilities. This ensures that all participants experience a sense of ownership and empowerment through participating in the system. This theme is reflected in the proposals in the Pre-Budget Report.

248. **Government responsibilities:** Government has a key role to play in creating the overall policy and institutional framework for WfD:

- in tackling past failures, notably in the provision of basic skills;
- in tackling market failures; and
- in ensuring that the right incentives and other signals are in place to deliver desired policy outcomes over a longer timeframe.

249. Within the right overall framework, it is for individual firms and employees to decide what WfD actions are appropriate to their needs and circumstances.

250. Government's role and the extent of intervention required can be expected to change over time as changes in the marketplace create new conditions. Government's current role is to:

- define the vision for WfD and define the overall framework supporting that vision;
- bring about relevant structural change;
- help tackle market failures, particularly among the low skilled and within small firms where social returns are higher;
- leverage private investment and action; and
- establish clear accountabilities and outcome targets.

251. **Employer responsibilities:** Employers manage the environment in which most WfD takes place and have a significant impact on the demand for development among their employees. Employers should be responsible for:

- high aspirations in their firms and for putting in place business cultures and strategies designed to improve productivity and profitability;
- promoting high quality management in order to develop business strategies that make best use of the skills of their workforce;
- demanding high quality, bespoke development and qualifications that meet their business needs;
- job-specific skills development; and
- supporting – with assistance from Government – the development needs of the least skilled individuals in their workforce.

252. Smaller firms are more likely to need support in this process.

253. **Individual responsibilities:** Given the scale of the potential benefits to individuals from WfD, there is a very strong case for individuals accepting more personal responsibility for training and development. The result should be greater demand for WfD to which the supply side needs to be responsive, providing training of the right kind and quality, making maximum use of technology and innovative methods of provision.

254. Individuals should be expected to:

- seek necessary advice and guidance, and receive it;
- ascertain their development needs;
- demand high quality development that meets their personal needs;
- invest in their development to keep skills up to date; and
- support and encourage peers, colleagues, friends, and family members to take active responsibility for their development.

255. The right support mechanisms need to be in place to help individuals assume this responsibility. Some will need more support than others.

Safeguards for the demand-led system

256. There are a number of issues associated with this approach, which need to be addressed to ensure that Government obtains value for money and to minimise the potential of misuse:

- Government budgets cannot respond to open-ended demand but it can be difficult to know when or how to cap funding streams.
- By putting resources out of direct Government control, there is a higher risk of misuse.
- Individuals may make choices that seem to the Government to be inappropriate.
- Poor quality provision could be funded.

257. The above issues would need to be tackled by a combination of approaches, including the provision of information to support better decision-making and local monitoring by agencies such as the local LSCs.

Policy instruments for creating the system

258. This report has argued that the causes of shortcomings in the skills of the adult workforce are multidimensional. It follows that no one policy instrument is likely to be sufficient to realise our vision or to put in place the demand-led system needed to deliver it.

259. A number of policy instruments are available to Government and the likely effectiveness and value for money of each needs to be considered carefully. This section reviews the case for:

- promoting best practice;
- improving status incentives;
- providing relevant and timely information;
- offering financial incentives; and
- using statutory approaches and regulation.

Promoting best practice

260. The promotion of best practice through supporting benchmarking, mentoring, partnering, networking and other routes to sharing best practice can be an effective incentive to improvement.

261. The advantages of this approach are that it provides organisations with examples of what works and enables them to communicate with others who have similar experience. Many employers prefer to gain knowledge this way.

262. A problem with this type of approach can be getting sufficient organisations to become involved to make it work effectively. In particular, smaller firms are difficult to involve in networks, partnering, etc. due to lack of time and a perceived lack of relevance.

263. The promotion of best practice can be undertaken in two main ways: the establishment of Government structures and institutions to share best practice, or Government support of employer-generated institutions and structures.

264. Government-generated structures can be high profile and may generate interest and involvement from major employers. However, Government structures are not always attractive to small businesses. Employer-generated structures may have more credibility with other employers although employer organisations are weak in the UK. The case for Government intervention needs to be clearly articulated and what works for one industry or geographical area may not be relevant for another.

265. The key criteria for introducing incentives based around routes to sharing good practice are:

- the level of interest amongst businesses;
- the extent to which businesses perceive themselves as comparable;
- the value for money of such interventions, which may be hard to quantify;
- the impact over both the short and long term; and
- the ease of maintaining enthusiasm and interest.

266. When designing promotion incentives, there are a number of key questions, including:

- Who is this incentive aimed at and how will they benefit?
- How easy will it be to participate?
- What standing does the Government have in the industry/area?
- How best to identify best practice?
- How can national and local needs be balanced?

Status incentives

267. Status incentives are based on comparisons, recognition and reward. The most common status incentives include:

- achievement of quality standards;
- gaining awards; and
- performing well in benchmarking exercises/case studies.

268. These can have both positive and negative impacts depending on the nature of the incentive. Positive impacts include:

- providing businesses with an advantage in the labour market by enhancing their reputation as an employer;
- increasing business success by raising the profile of a firm;
- raising morale internally (which can result in improved productivity); and
- acting as a learning experience for the organisation and an inspiration to others.

269. Negative impacts can include:

- driving a quest to 'get the badge' that becomes an end in itself, not related to organisational objectives;
- not practising what you preach;
- increased paperwork and bureaucracy; and
- unequal benefits for workers, managers and employers.

270. Ultimately, the most important role of status rewards is to drive change by identifying and publicising good practice.

271. Key criteria for introducing status incentives are similar to those identified above for promotional incentives.

272. When designing status incentives, these are a number of key questions:

- Who is this incentive aimed at and how will they benefit?
- How easy will it be to participate?
- How to balance rigour with minimising bureaucracy?
- How to identify best practice?

Providing relevant and timely information

273. Another set of Government interventions can be identified under the general heading of information. This includes establishing effective systems for collecting and disseminating information, advice and guidance to individuals and employers using 'one stop shops', mentors, business advisers and technology.

274. As identified in Chapter 4, market failures relating to information play a key part in the problem of WfD. Therefore, any action taken to improve the position must tackle the issue of information. Chapter 6 describes a variety of possible interventions.

275. When designing information systems, the key issues to address are:

- identifying the audience and what they require;
- establishing the media preferred by the audience (e.g. net-based information is not appropriate if most of the audience do not have net access);
- considering the cost/benefit of data collection/provision (collecting data because it can be collected can be a costly business with no real benefit);
- balancing standardisation against customised provision; and
- assuring the quality of the system and the data it provides.

Financial incentives

276. The Government uses financial incentives to achieve its goals in a wide range of policy areas. Financial incentives can take a number of forms, including:

- an entitlement – the recipient has a 'right' to receive some financial benefit;
- a reward – where the recipient receives some financial inducement in return for certain behaviours;
- compensation – where the recipient receives financial recompense for complying with required behaviour; and
- punitive – where the recipient incurs a cost for failing to demonstrate required behaviour.

277. The Government provides positive financial incentives principally through either public expenditure subsidies or the tax system. Possible financial incentives for the demand for WfD include:

Public expenditure subsidy	*Tax system*
• Direct subsidised public provision • Payments to individuals, employers and/or training providers, i.e. grants, discounts, interest subsidies	• Tax credits via income or corporation tax • National Insurance concessions

278. Selection of the most appropriate incentive or combination of financial incentives and other instruments needs to be guided by a clear set of criteria which will ensure value for money. These criteria include:

- avoiding substitution – i.e. the risk that attaching financial benefits to one type of training could encourage employers to change what they currently do and adopt the type of training with financial benefits attached irrespective of its suitability;

- avoiding deadweight – the risk that the Government will incur a cost that employers already incur or would be willing to incur;
- encouraging desired behavioural change – the need to ensure that perverse incentives are not created by the financial incentive or its interaction with other policy instruments;
- ease of targeting – blanket interventions may be rather crude and run the risk of missing the target group;
- effectiveness – how well does the intervention address the problem, its symptoms or causes?
- value for money – the level of return achieved for the investment in the intervention; and
- comprehensibility to potential recipients – too much complexity may be a disincentive to take-up of the incentive and thus a barrier to achieving the desired change in behaviour.

279. Whichever option or options are selected, a number of design issues also need to be addressed:

- who is the target group for the intervention;
- how far is the incentive aligned with recipient behaviour;
- what constitutes eligible activity;
- what should be the scale of the intervention or the size of the financial incentive;
- how to manage risk, e.g. of perverse incentives;
- how to achieve best fit with other incentives; and
- how best to administer the incentive.

Subsidised provision: payment to providers

280. Subsidised direct provision through FE colleges is substantial and in 2000/01 benefited just under 1.4 million adult students, the majority (1.2 million) studying part-time.[109] Around 60% of the total are enrolled for courses at the equivalent of level 2 or below.

281. Chapter 4 of this report sets out the details of how funding to colleges has been allocated through 'formula-funding', some of the difficulties this can lead to and the improvements that can be expected from the forthcoming changes. In general terms, the strengths of direct provision are:

- the ability to plan and manage provision centrally;
- a common funding regime for each college; and
- equality of access.

282. Difficulties with the system are:

- it is supply-side driven rather than demand-led and customer focused;
- it is not always transparent; and
- it can blunt local initiative and innovation and distort local decision-making.

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[109] Students aged 19–59 enrolled on FEFC-funded provision in further education sector colleges and external institutions in England on 1 November 2000.

Direct payments to individuals and businesses: grants, discounts, accounts and loans

283. Direct payments to the users of WfD (i.e. individuals and businesses) can play a major role in stimulating and focusing demand. There is already considerable experience of them – for example discounts on course fees have been provided through Individual Learning Accounts in the past, and loans are available for both individuals (career development loans) and small businesses (small firm training loans) for WfD.

284. In general, direct payments have a number of advantages:

- the cost and amount of the subsidy is transparent;
- they can be easy to target as eligibility conditions can be set;
- they can be tied explicitly to the objectives of policy;
- they offer a degree of flexibility;
- options are numerous and imaginative, e.g. matched funding provisions can be incorporated; and
- by giving purchasing power to consumers, they increase the incentive for providers to be responsive and efficient.

285. The drawbacks are:

- administrative costs of targeting and monitoring use;
- potential deadweight costs; and
- the risk of creating a dependency culture.

286. Subsidised loans can more specifically help to address some of the capital market constraints associated with the funding of WfD (set out in Chapter 4).[110] Loans have a number of advantages as a policy instrument. They can be:

- an effective and efficient way to meet Government objectives. Since loans are generally repaid, the cost to Government in the longer term should be lower (depending on default rates);
- a fair way of recovering some of the benefits of Government intervention from recipients. If individuals or businesses gain from intervention then there is a case that they should contribute to the cost;
- a way to achieve important incentive effects. For example, they may provide incentives to choose value-for-money options by looking at the likelihood of future gains and pay-offs. They may also generate desirable behaviour, for example a training loan may encourage the borrower to finish the course paid for by the loan.

287. The main disadvantages of loan mechanisms from a public policy perspective are:

- low take-up that may jeopardise the achievement of the objective. Individuals on low incomes and small businesses may see the prospect of indebtedness as a disincentive;
- loans are better at incentivising activities which generate private returns (e.g. higher wages) than activities which generate wider social returns (that do not accrue to the borrower);
- some individuals and businesses may incur excessive debt.

288. Some of these disadvantages can be tackled by careful design and implementation, for example providing money management advice for those

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[110] The PIU has been looking at loans in its current project 'Modernising Government Loans'. (This is expected to be published shortly.)

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interested in taking out a loan, increasing financial literacy and making debt advice available.

289. In the context of WfD, direct grants could take on a larger role in shifting funding from providers to users (i.e. individuals and employers). This is discussed in more detail in Chapter 6. There are potentially a wide range of options to consider. For example:

- a new form of individual learning account for individuals, where direct payments could cover elements of course fees;
- packaging support to small firms through a small firms learning account; these could cover various costs associated with WfD and incorporate direct payments in a variety of forms; and
- discretionary support for employer network facilitators/co-ordinators.

290. In all these cases it might be possible to structure the incentives to encourage partnership working between individuals, employers and Government.

Tax credits

291. Existing tax provision for WfD treats 'work-related training' as an expense, like any other business expense, and it therefore reduces business profits and hence corporation tax. There are currently no tax credits for WfD either for employers or for individuals.

292. In general terms, tax credits can be used to stimulate additional expenditure by reducing costs. There are several ways of implementing a tax credit, including through the corporation tax system – a so-called super-deduction[111] – or through the PAYE system by reducing income tax or National Insurance contributions. Each has the potential to work in particular situations and with specific design features. However, in general terms, tax credits have a number of advantages, including:

- reaching a large number of firms;
- using existing administrative systems; and
- the capacity to be targeted on particular firms.

293. But they also have a number of drawbacks:

- trade-offs between avoiding deadweight and simplicity of design;
- perverse incentives to exaggerate WfD expenditure; and
- the risk of missing key groups, e.g. employers either outside the corporation tax system or employees earning below the National Insurance threshold.

294. A tax credit to increase training and development activity would have to be carefully designed to take account of:

- the size of firm eligible for the tax credit, i.e. small or large firm and where the boundary is drawn;
- the eligible categories of training expenditure, i.e. costs of tuition and accreditation, wage costs; and
- the size of the incentive to be offered: full or partial reimbursement of costs.

295. The evidence shows that the smaller the firm, the less training it is likely to do. So, making help with training costs available to all firms would carry more deadweight than a more targeted incentive. On the other hand, targeting would be accompanied by a set of rules which would in turn increase the costs of bureaucracy and audit.

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[111] Tax deductions are normally given on a pound for pound basis (i.e. a pound of taxable income is deducted for every pound spent). A 'super-deduction' gives greater relief, so for every pound spent, a higher amount can be deducted.

296. A significant amount of training activity already takes place for those employed, although as this report shows (Chapters 3 and 4) it is unevenly spread between large and small firms and low and high skilled workers, and covers many elements including health and safety, and induction. Approximately 740,000 adults in employment are estimated to be working towards a qualification up to the equivalent of level 2.[112] A large proportion of these may be working towards additional qualifications at the same level.[113] Furthermore, not everyone will be funded by their employer although it is difficult to estimate the extent of employer funding.[114]

297. Current public funding for employers is limited to some course costs in FE colleges. Employers will meet all the other costs associated with training and development in full, i.e. accreditation and examination, participation costs (e.g. books, tools); and replacement wage costs, both for trainees and for those supervising them when training is on the job.

298. The level of the incentive offered by a tax credit could be altered to send stronger or weaker signals depending on how it was delivered (the corporation tax system, PAYE or NI).

299. In the longer term, this report's proposals to put funding directly in the hands of individuals would mean that they became responsible for their own development, receiving help with tuition, accreditation and participation costs, and the effectiveness of existing policies would need to be reviewed. Support for living costs would continue to be a matter for individuals and their employers.

Statutory approaches and regulation

300. The UK currently takes a voluntary approach to WfD (apart from some specific interventions such as the right to paid time off for 16–17-year-olds) but has, in the past, adopted policies which, to varying degrees, have sought to require employers to develop their workforce. Regulatory obligations are used in some countries (Singapore, France), but they cannot be divorced from surrounding structures and culture (see Annex 9 for international comparisons).

301. Introducing any statutory regulations in the UK would, therefore, need to reflect lessons from the experiences of other countries and to be tailored to the particular needs of the UK. These issues would have to be carefully considered, and comparison with non-legislative alternatives and wide consultation would be necessary before making a decision to legislate for any specific proposal. This would be a major step involving consultation, a Regulatory Impact Assessment and possibly pilot projects if this option were to be rolled out.

302. The Government's election manifesto made a commitment that "where both sides of industry in a sector agree [the Government] will help set up a statutory framework for training".

What kind of statutory framework or regulation?

303. There is a wide range of statutory or regulatory incentives that could be considered, all of which have advantages and disadvantages, a flavour of which is included in Figure 31. To a large extent these depend on the details and circumstances of implementation.

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[112] Adults, aged 19 or over, employees and self-employed in the UK. Labour Force Survey, Spring 2001.

[113] For example, around 350,000 are estimated to already hold the equivalent of a level 2 qualification.

[114] For example, the Skills Survey 1997 asked those in employment who paid for training. Over 40% had their costs paid by their employer and a further 40% were reported to have shared the cost with their employer, and/or with their relatives. See F. Green, 'Training the Workers', in P. Gregg and J. Wadsworth (eds) *The State of Working Britain*.

304. To assess the suitability of any of these options, a range of criteria need to be defined. Such criteria could include:

- cost for all stakeholders involved compared to the benefit achieved;
- extent to which the ultimate objective would be achieved;
- ease of implementation, enforceability and administration;
- degree of agreement amongst stakeholders;
- extent to which the problem to be solved is intractable;
- interaction with other incentives and other regulations; and
- impact on motivation and partnership working.

305. Each of the options has specific design features that would need to be examined. Some of the more general issues would include:

- ability to target and the impact of targeting;
- complexity and susceptibility to misuse or fraud;
- clear definition of the problem to be solved; and
- definition of the activity involved.

Figure 31: Statutory and regulatory approaches

Advantages	**Disadvantages**
Levies	
• increase volume of expenditure on WfD • respond to specific skills issues with an industry • encourage strategic planning of training at firm and sector level • help smaller firms overcome diseconomies of scale • may act as disincentive to poaching and combat free riding	• increase administration and bureaucracy • potential for manipulation by firms • meet resistance from individual firms • the cost may not be proportionate to the benefit obtained • minimum level of training may exceed economically efficient level of training
Building in skill requirements to procurement and franchising contracts	
• maximises the use of supply chains by encouraging elements of the supply chain to work together to meet contract requirements • promotes coherence throughout an industry by promoting an expected level of skill • levers up skills and qualifications attainment to enable firms to tender • provides an opportunity for Government to demonstrate best practice	• may involve significant legal complications, particularly regarding European Union (EU) procurement directives • leads to a 'tick box' mentality where firms adopt a superficial compliance with contract terms • involves a bureaucratic assessment process • places skills in competition with other Government policies such as value for money which are at the core of tendering and contracting

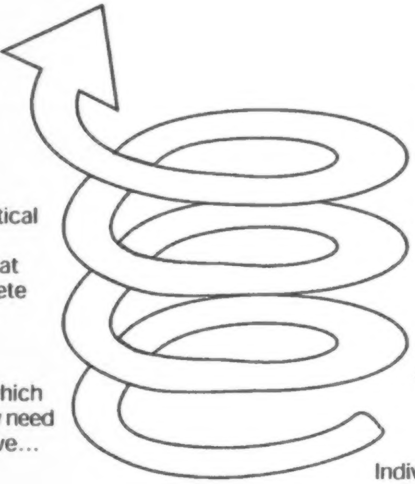
Figure 31: Statutory and regulatory approaches – continued

Advantages	Disadvantages
Right to paid time off for development	
• increases demand for training by motivating and empowering individuals • promotes cultural change among employers and individuals • lessens the impact of market failures, e.g. poaching • places the UK on a par with other European countries • eases pressure on work/life balance • underlines Government's commitment to improving skills of whole workforce	• may have potential impact on business in terms of cost and administrative burden • may involve complications with enforcement • stigmatises development if limited to those with lowest skills
Using licence to practise	
• encourages continuous development • promotes excellence • makes the link between skills and performance • pushes up a consistent level of basic skills	• may act as a barrier to entry and restrict competition • demands a consensus on standards and accreditation • discourages transferable training and flexibility
Compulsory membership of networks (e.g. Chamber of Commerce)	
• tackles the problem of freeloading • may improve the quality of networks • increases employer engagement	• may be treated as another imposition • fails to recognise the voluntary nature of the best networks
Provide statutory backing to peer advisers in the workplace building on the success of ULRs	
• stimulates demand outside unionised workplaces	• creates a regulatory burden • may be difficult to enforce

Achieving these objectives would place the UK in a virtuous spiral of development

306. The virtuous spiral that the vision and strategy outlined in this report could deliver is illustrated by Figure 32 and by the two forward-looking case studies in Boxes 4 and 5.

Figure 32: The virtuous spiral of WfD


Individuals and employers will know that continuous development matters...
... and which skills they need to improve...
... and where to go and whom to contact...
... and the practical barriers will be minimised so that they can complete development...
... and learner and employer support will be made more readily available to ensure that investments in learning are maximised and generate significant returns...
... and individuals and employers will be able to apply and utilise new skills – and appreciate that continuous development matters

Box 4: Realising the vision: a possible scenario for WfD in 2015 – Jack's story

Jack left school 20 years ago with no qualifications. He has some basic skills problems, but for the last five years he has had a largely manual job on the floor of an SME called Ridley's Papers which sells paper supplies to regional businesses. Jack is a good employee and people at the firm have suggested that he should aspire to become a supervisor. But he knows that he would need to improve his literacy and might have to use a computer and he doesn't think he would be able to. So he always ignores his colleagues when they encourage him to apply for supervisory jobs.

Ridley's has around 40 employees, built up from a five-person business seven years ago. The company is finding it increasingly difficult to keep up with its much larger rivals and is beginning to find cash flow very tight. The managing director and his deputy discuss this with their accountant at the end of the quarter. Profits have been shrinking for some time and they want the accountant to help them understand why – do they need to cut costs? The accountant points them to a new package of Government support available which may help them understand their problems. The accountant has mentioned it to other firms which have found it helpful, and it is tailored specially for firms of 50 employees and below. He gives them a brochure and explains what is available.

The management team decide to take up the offer of support. This enables them to understand better the market they are operating in and they discover that one of the main reasons many of their former customers are going to rival companies is because they do not offer a good enough online ordering system. The management team start to look into this.

Meanwhile, part of the Small Firms package also supported a colleague of Jack's to be trained as a Company Learning Representative (CLR). A supervisory job comes up in the workshop, and it is mentioned to Jack again that he might apply. He says that he doesn't have the right skills. The CLR goes up to him as they are leaving work and points out that he can learn new skills.

Jack is nervous about admitting his problems with basic skills and is also reluctant to go into a formal learning environment again, having left school so long ago. He tells the CLR that he doesn't have time and that he can't afford any extra money, especially since he and his wife have just had a new baby and his son is still living at home while pursuing his Modern Apprenticeship. The CLR explains to him that he can get a course for free with his learning credit and about the five days' leave he can have to improve his basic skills. He also explains the advantages of undertaking a course. Jack says he will think about it. In the meantime, the supervisor's job is given to someone else.

Box 4: continued

Jack discusses the possibilities with his wife, Jill, who encourages him to pursue promotion in the future and supports him in taking up the credit. The CLR has already got several people signed up to courses and speaks to the management about the opportunities they have to aggregate their employees' learning credits and gain extra support through their Small Firm package. Management know that if the new ordering system they want to introduce is to work, their employees will have to be more computer literate because the system will deliver information direct to the factory floor.

They agree with the CLR that they will support employees and aggregate the learning credits if they pursue ICT training. The CLR discusses this with the employees who have expressed an interest in undertaking learning. They all agree that they are happy to pursue ICT training – Jack is especially pleased because this is likely to assist him in his hopes to progress further at work.

The management are keen to provide the ICT training in the office just after main office hours because everyone will be able to attend and they will be able to keep their eyes on the training and make sure it is top quality. They are sent a list of approved providers, and try the local FE college first. Unfortunately, it is full to capacity and cannot provide the course for the small number of people taking part at Ridley's at 6 in the evening. But another provider on the list agrees to deliver the course. Because the employees are pursuing training up to a level 1 standard, the employees and the company do not pay the cost of the training, but Ridley's provides the premises and individuals give up their own time.

Six months later, Ridley's successfully installs its online ordering system. Employees still require half a day's training to operate the system, but the management are confident that the training has made the installation smoother than it would otherwise have been. Jack enjoys his course enormously, and decides to get his level 2 certificate at the local FE college next year. Just before he gains his certificate, another supervisor's job comes up. Jack applies for it and gets it.

Box 5: Realising the vision: another scenario for WfD ... and Jill's story

Working as a mother and general superwoman around the house has been Jill's main occupation since the children were born. Since baby Freddie's arrival, however, Jill has started to think about going back out to work in a couple of years' time. As well as the money, she feels in need of a change and a challenge.

But Jill is nervous: her NVQ 2 in office administration has become outdated with the arrival of new technologies; she hasn't been in the workplace for nigh on 15 years and can't see herself competing with bright young graduates, or people who've been building up impressive CVs while she's been washing nappies. To make matters more difficult, Jill has decided that she doesn't want to go back into office work. As a secretary in a large firm she often felt bored, underused and lonely. Her experiences as a mother, and as a carer for her ageing father, have given her a taste of a more active lifestyle and brought out her natural ability for dealing with people and providing care and support for others. Jill knows that she would like to build on these skills but isn't sure what kind of career would give her the opportunity and, anyway, with a baby to look after, she can't see how she would be able to train in anything new.

With these thoughts bubbling under the surface, Jill was surprised to find support in her local mother and child group. As part of the area's Information, Advice and Guidance Partnership, the group was able to offer Jill some initial support in thinking about what kind of career would suit her needs and skills. Having decided upon something in the field of social care, they then referred her on to another specialist adviser in the neighbourhood, based in the local careers service. There the adviser helped Jill look up some courses on the internet and discussed these and other options with her. She was able to go back to the adviser a few times with new enquiries and concerns.

Jill signed up for her learning credits and decided to spend them on a specialist NVQ 3 course in care for the elderly, which, she was delighted to discover, meant she would receive a special grant. With more people living longer in 2015, great strain is being placed on care homes. The Local Learning and Skills Council (local LSC) has identified a shortage of trained carers to work in mobile units which, by visiting elderly people in their own homes, could help ease the pressure on local residential care facilities, keeping places for the most needy. The local LSC has therefore decided to use its discretionary funding mechanisms to support care courses at levels 2 and 3.

Following an easy and fast means test, Jill found that she was also eligible to receive financial support for childcare. The FE college helped her find a suitable place for Freddie and when, three months into the course, she started volunteering part time in a residential care home, the college found a way to rearrange her timetable.

Three years later we revisit Jill. Not only is she now running three mobile care units throughout the area, but she has also started to study part time for a diploma in social care at the local university.

6. RAISING DEMAND

Summary

- Stimulating demand is the key objective of the WfD strategy set out in Chapter 5.
- Raising demand from employers could be achieved by:
  - sharing of best practice though networks, supply chains and benchmarking;
  - enhancing management skills through support for management development;
  - supporting change and innovation through the provision of relevant advice and information; and
  - recognition and reward.
- Raising demand from individuals could be achieved by:
  - promoting the benefits of WfD;
  - provision of appropriate information, advice and guidance; and
  - reviewing mechanisms for adult financial support.
- Central to the raising of demand is addressing the barriers of time, money and motivation for both individuals and employers. This could be achieved by:
  - putting purchasing power in the hands of individuals and employers. Funding is one barrier to participation and extra support may be required from Government;
  - incentivising partnership working between employers and individuals to raise levels of investment; and
  - providing small businesses in particular with a readily accessible package of support.

Introduction

307. As discussed in Chapter 2, the benefits of education and training are captured by individuals through increased earnings and by firms through increased profits. Taken at face value this implies that everyone has an incentive to undertake WfD. However, Chapter 3 shows that the UK has a particular problem with a stock of low-skilled workers with qualification levels below level 2, compared to other industrialised countries. Chapter 4 describes why this situation arises - a complex mix of failures in the training market, overlaid with Government failures and cultural factors - and therefore why there is an underinvestment in WfD.

308. The conclusion drawn from these chapters is that progress needs to be made on:

- raising the minimum skill level of the workforce; and
- creating a system that is based on an integrated approach to demand and supply to break out of the low skills equilibrium.

309. If a demand-led system is to be effective in meeting the goals of raising the level of WfD and impacting on productivity and social exclusion, the level of demand for WfD itself has to rise. In particular, it has to rise among those who currently do not demand WfD: low skilled individuals and small firms.

310. This chapter discusses possible approaches to raising demand amongst employers and individuals, and mechanisms that could be used to empower employers and individuals to participate in a demand-led system.

Raising employer demand...

311. The key to raising demand for WfD amongst employers is to stimulate/encourage innovation and change and to promote High Performance Working (HPW) practices. This should lead to better business performance, thereby stimulating demand for better skills and more development.

312. This can best be achieved by adopting policies that build the capacity for innovation and change within firms. Key to this agenda is the need to promote and share best practice and to develop excellent management capability.

313. Building this capacity will require different approaches for large and small firms. Government interventions are best targeted on small firms that may not have the expertise to adopt challenging business strategies or to train and develop their workforce.

Spreading and sharing best practice and recognising achievement...

314. Innovation and change can be stimulated and supported through the spreading and sharing of best practice. Helping businesses identify areas of business performance where improvement can be achieved can help to promote WfD (e.g. within the public sector best practice guidance produced by the Audit Commission and the National Audit Office enables all relevant bodies to learn from each other). For this to happen requires reliable comparative information and appropriate channels of dissemination.

315. Benchmarking is an effective tool for identifying best practice by enabling businesses to compare results and processes, and for encouraging improved performance by demonstrating to individual businesses how they compare to their peers or

competitors. For example, the *Times* Top 100 graduate employers survey indicates clearly to firms how their performance compares with others.

316. There are a number of benchmarking initiatives already in place within the overall framework of the CBI/DTI 'Fit for the Future' campaign; key elements include:

- the people skills scoreboard, developed with DfES;[115]
- the SBS benchmarking index;
- the CBI benchmarking service;[116] and
- public sector benchmarks such as Audit Commission performance indicators.

317. Therefore the creation of a new system of benchmarking may not be appropriate. The weaknesses of the existing systems arise from lack of participation and the difficulty of accessing detailed benchmarking information.

318. A co-ordinated approach to identifying (through benchmarking), disseminating and encouraging the adoption of best practice, drawing on existing initiatives, would best serve business.

319. The SSCs could take the lead in identifying, disseminating and strongly encouraging the take-up of best practice within sectors, along with other bodies such as IiP UK, the CBI and CIPD who could provide best practice indicators and guidance in relation to WfD. Methods for linking firms to share best practice and benchmarking information, including the use of technology to develop virtual networks, should be actively explored. The DTI business support review should also feed into this process.

320. IiP UK has a successful track record of embedding training and development and promoting good practice within a variety of organisations. IiP UK is currently developing new approaches to engaging small businesses (including the establishment of a small business task force) and retaining those businesses already accredited.

321. Such approaches include:

- developing further voluntary support tools to help organisations reach beyond the standard. Areas will include developing managers and leaders, and helping organisations to manage a diverse workforce to successfully meet the needs of their business;
- developing a route map that will include other quality standards to ensure employers move in the right direction for their business;
- exploring ways of recognising excellence. Recognising organisations that have been outstanding in promoting and representing the values and principles of IiP, encouraging organisations to be pro-active in championing the standard to customers, suppliers and within the local community; and
- using large organisations as mentors to smaller organisations.

322. As a means of maintaining momentum, IiP UK should consider proposals for 'beacon status' for successful IiP UK companies. Beacon status might include such elements as benchmarking, demonstrating quality leadership and management, piloting HPW methods, and running IiP UK 'clubs' to support local smaller firms and supply-chain firms in their development and in moving towards IiP UK status. This is in line with the work currently being undertaken by IiP,

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[115] DfES and DTI working with NTOs and trade associations on a sectoral basis.

[116] The CBI offers a benchmarking service relating to human resource issues. This product focuses on four critical factors for people management: leadership and culture; employee development; employee involvement; and work organisation.

Box 6: Basic skills in the MOD

The Army is committed to developing a system of high-quality basic skills provision that meets the needs of individual Army personnel (and, where practicable, their families), wherever they are stationed across the world. That provision must be comprehensive and flexible enough to offer a range of opportunities that accommodate individual needs and preferences as well as the demands of Army life. To this end, the Army is establishing local networks of provision that exploit a variety of learning contexts, from traditional college courses to family and community settings.

Access to on-line and other IT-based learning programmes (some already fully contextualised for Army settings) will provide an effective option for many. The use of the Army's growing network of well-equipped learning centres that draw on **learndirect** services will provide an essential platform for this aspect of the basic skills service.

At the same time, the Army is set to provide all students with access to specialist basic skills tutors, as well as mentor support, in all its 35 adult education centres and recruit training centres. Access to quality first-line basic skills advice and information in settings away from the learning centres – in the workplace, in libraries, in community outlets in garrisons and beyond – will complement this provision and dovetail with local external services.

This planned integrated system of provision represents a significant investment in assisting individuals to improve their skills and, in the longer term, to realise their potential more fully. The opportunities provided for basic skills assessment very early in a soldier's career and the effective long term tracking of student progress are all endorsed with the Basic Skills Agency's Quality Mark.

along with SBS, building on the Inside UK Enterprise programme.

323. Good practice in WfD often arises when organisations are going through change processes. Recognition of achievement is a vital part of such processes. Government-sponsored methods of recognition include awards such as the National Training Awards. Recognition could also be achieved through the award of IiP UK beacon status.

324. One of the problems with the current systems of recognition and reward may be

Figure 33: Sectoral awards – Excellence Through People

Excellence Through People was set up by the British Hospitality Association as a response to a Department of National Heritage report which showed how the hospitality industry's ability to recruit decent staff was undermined by its image as a poor employer. It covers a whole range of employment practices – recruitment and selection, offering a decent reward package, developing skills and performance (including job design), effective communication, and staff retention. Extra points in the assessment system are available for employers who recruit modern apprentices, achieve IiP, have in place appropriate people management skills, forge links with local schools and colleges. In its first three years the scheme has made awards to about 700 hospitality trade employers.

the number and diversity of awards currently in operation. A review and rationalisation of publicly-funded awards may be beneficial.

325. A valuable form of recognition may be through industry-specific awards where best practice in that industry is acknowledged. An example of such an approach is shown in Figure 33. The SSCs could have a role to play in this area. In particular the recognition of business and performance improvement deriving from WfD could be rewarded rather than focusing on WfD or human resource processes.

The Government as an employer can lead the way...

326. Government is a major employer. It is already signed up to national learning targets, and parts of the public sector are major providers of development – for example, the Army, in partnership with external providers, is establishing one of the most comprehensive systems of basic skills provision throughout the UK and overseas.

327. The Government is also able to pilot and test innovative approaches internally and to promote good practice identified within its own workforce and externally. In addition, the Government could consider the applicability of the national learning targets to its own workforce and establish the extent to which they actually drive improved performance or whether alternative targets might be more appropriate.

... while Government procurement policy can have an impact...

328. Government procurement can influence a wide range of supplier companies. Government policy states that procurement should be based on value for money (VFM).[118] Procurement policy should not obstruct other Government policies nor should procurement be distorted in the pursuit of other policy objectives. Where WfD is a factor in the ability of a supplier to deliver goods or services, then it can, where appropriate, be a legitimate element of the specification or form part of the selection criteria used to determine the suitability of candidates for a contract. This needs to be assessed on a case-by-case basis and it is difficult to produce blanket guidance.

329. Any actions to encourage WfD must be set within the procurement policy and the EU framework. 'Green' procurement offers an example of how this could be achieved (see Figure 34).

330. A similar approach to WfD could be effective if co-ordinated with the Office for Government Commerce (OGC) to ensure compliance with value-for-money principles and EU rules.

Figure 34: 'Green' procurement

A useful parallel is the work done on 'green' procurement, which resulted in a joint note between the Treasury and the former Department of the Environment, Transport and the Regions (DETR).[117] This was carried through by a network of 'green' champions in departments at ministerial level, which was set up following the publication of the 1990 White Paper *The Common Inheritance* which required that each department should have a strategy in place for 'greening' its operations.

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[117] 'Environmental Issues in Purchasing', HMT and DETR, available on OGC website.

[118] Defined as the optimum combination of whole-life costs and quality to meet the user's requirement. See www.ogc.gov.uk for details.

331. Other possible actions include:

- working with suppliers after awarding a contract. After the award of a contract, there are many ways in which departments can work with suppliers to promote WfD, including promoting Government initiatives on skills, helping them to achieve quality standards like IiP, or providing access to departmental training facilities. DfES is currently looking at ways to introduce such practices;
- building continuous improvement into specifications. It is consistent with the principle of VFM to ask bidders to demonstrate their capability for continuous improvement and should benefit WfD; and
- DfES taking the lead on skills and procurement. DfES is currently working on using its procurement arrangements to influence its suppliers to raise their skill levels, and it is well placed to take the lead and provide examples of best practice in consultation with OGC and other departments.

Recognising and promoting the value of WfD

332. Employers need to be persuaded to adopt best practices in developing their employees and to put in place appropriate strategies to make best use of these individuals within a learning organisation. A key step is developing a convincing business case for investing in developing the workforce and promoting this through targeted campaigns. This approach should be a key part of engaging employers on basic skills as part of the 'skills for life' strategy.

333. Knowledge, skills and capabilities play a major role in contributing to sustainable profits. It is essential to encourage businesses to provide detailed reporting to help investors understand how human capital builds long term corporate value. This includes the kind of people a company employs, their skills, training philosophy and investment, knowledge management systems, ability to handle change, and recruitment strategies.

Figure 35: Human resource measures

- Levels of competence and qualifications, including basic skills
- Employee satisfaction
- Results of 360 degree feedback on all or selected groups of staff
- Training expenditure
- Distribution of training activity across the workforce
- Work/process/product changes and the resulting training
- Innovative and socially responsible approaches (i.e. learning through job swaps/volunteering networks)
- Details of in-house programmes and progressions through these
- Outputs from exit interviews
- Recruitment/retention costs

334. Moving towards a system that better records human capital information is a longer term option. Initially, it should be possible, via the review of the operating and financial reporting statement being undertaken by the Accounting Standards Board, to start to encourage large employers to include information on their training and development activities in their annual reports.

335. Research involving Government, a sample of companies, the investment community and accountants should take place, to start to identify measures of human capital and produce guidance for companies who wish to provide more meaningful disclosures. This could be taken forward by DTI in conjunction with other relevant parties, including a sample of large organisations.

336. Ultimately, following a period of voluntary disclosure, elements of best practice should develop. Figure 35 gives some examples of the type of information that could be disclosed.

Expanding opportunities for management development...

"The productivity of work is not the responsibility of the worker but of the manager."
Peter Drucker

337. The lack of opportunities for management development is a significant problem for smaller organisations, a barrier to business expansion and innovation and, in some cases, a cause of business failure. Management development policy should encourage the uptake of development by managers, and encourage newly trained managers to recognise the importance of training employees.

338. A starting point for the delivery of improved management development is a national management strategy. CEML is working on a national strategy to be produced in March 2002. Taking forward this agenda needs to be overseen nationally, by the DTI and DfES, but could also involve SSCs in helping to define and champion management development. It is important not to lose the focus given by CEML.

339. Some of the issues that the strategy could address include:

- encouraging SME owner/managers to participate in management development;
- the appropriateness of management qualifications for SMEs;
- the development of training units based on business growth points;
- people management training; and
- high performance working.

340. Provision of management development must be tailored to the needs of the small business. In many small businesses the owner/manager is starting from a relatively low level of formal education and may not see the relevance of undertaking a postgraduate or similar qualification. For such managers, a starting point would be short courses in topics of direct practical use held by local suppliers.

341. To encourage SME owner/managers to participate, an approach to management/business development giving help to small businesses at key business development points could be introduced. The purpose of such an approach would be to provide financial incentives at stages in the growth of a business for the owner/manager to seek advice, mentoring or training related to specific managerial problems from a wide range of providers. These incentives could be offered to all businesses with less than 50 employers as part of the overall package of incentives provided to small business.

... while building stronger employer networks...

342. Networks can be valuable sources of business advice, mentoring and development, particularly for small employers, and thrive best where they are established to meet a particular need that is clearly identified by the business community which they serve. US experience on moving towards a demand-led WfD suggests that one of the top priorities should be "institutionalisation of employer leadership and strengthening the infrastructure of employer organisations".[119] The Small Business Council has also recommended supporting small businesses through supply chain and cluster mechanisms.[120]

343. There are huge variations in the quality of employer institutions and the services they deliver. The SSCs have been charged with working with existing institutions, especially trade associations, but this is complicated by their fragmentation.

344. SSCs are well placed to develop stronger networks within specific sectors to promote the benefits of WfD. However, in some cases nationally-driven programmes are too inflexible to respond on a timely basis to local need.

345. There may be a case for public support at local level, introduced via the RDA or local LSCs, to help establish networks at the request of employers and/or provide network co-ordinators to promote the value of networks and to help networks to become established. The SBS also has a role ensuring that networking for WfD is linked to mainstream business networking.

... and extending the sources of information available to SMEs

346. SMEs need to be able to engage with a wide range of providers of information, but also need simplicity. Many businesses are best reached through their usual intermediaries such as banks and accountants, both of whom could be encouraged to provide WfD information along with general business information as part of their advisory role. CEML and IiP UK are currently looking at this area.

347. For those employers who have particular problems with time or geographical access, technology may offer a solution. Examples of such methods include:

- live web-based assistance. An employer could be directed to web-based IAG/LMI through any number of linked websites. This would enable the employer to ask questions, request assistance, or set appointments through web-based interactions with live assistants;
- intelligent search engines/databases. An employer could enter a postal or industry code and be directed to local databases that provide services such as information about average wages, skills or occupations in demand, local providers of business services, training providers; and specific assistance provided by the public sector; and

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[119] M. Liebowitz, M. Seltzer and R. Kazis, 'Building Organisational and System Capacity: How Government Can Support "Demand-Led" Reform'. Paper prepared for the Welfare to Work: New Solutions for the New Economy UK/US Symposium, 2000.

[120] Small Business Council annual report, July 2001 (http://www.sbs.gov.uk/organisation/sbc.asp).

- facilitated discussions, meetings, or events among communities of interest. For example, employers in a geographic area undergoing regeneration, or employers in similar sectors or industry clusters, could use technology to participate in activities such as education, problem-solving or information sharing. Such events provide an opportunity to experiment with new technologies in the workplace, and to demonstrate them to local firms.

Raising individual demand

348. If the level of demand for WfD is to be raised, individuals must recognise and understand the benefits it brings.

The benefits of WfD must be promoted

349. While national promotion of WfD has a role to play, individuals who have not engaged in formal development activities for some time are best reached through intermediaries in their workplace or community.

350. The national network of Union Learning Representatives (ULRs) has enjoyed substantial success. However, ULRs only operate in unionised workplaces. This limits their potential, since the smallest firms tend not to recognise unions except in certain industries such as print. Also, because they are a relatively new concept and not universally accepted, it would not be feasible to require all companies to appoint ULRs on the model of health and safety representatives.

351. The concept of peer advice that underpins ULRs is one which could be usefully adopted in small and non-unionised settings. There are a variety of mechanisms by which this could be achieved, including identifying individuals within each firm, establishing networks, using supply chain relationships, and sharing advisers between clusters of small firms. All of these ideas could be explored, with efforts focused on smaller firms who do not have in-house human resource functions.

352. The apparent success of ULRs in promoting learning in the workplace suggests that something similar might be effective in developing demand for learning in local communities.

353. This could be particularly effective when combined with other initiatives:

- to minimise the impact of redundancies;
- to support community renewal or regeneration; and

Box 7: Employers and unions working together

Littlewoods/USDAW/GMB

In a ground-breaking agreement that may become a model for others to follow, Littlewoods has formalised its commitment by developing a joint lifelong learning policy with USDAW and the GMB. The agreement aims to make learning as accessible as possible for all employees. The agreement specifically states that Littlewoods supports the work of Union Learning Representatives and accepts its responsibility to provide resources where appropriate. Eighteen reps have been trained at the site so far, and have been given paid time for the training as well as to carry out their on-going duties.

Box 8: Experimenting with peer-to-peer networks and e-learning in Government

A joint venture between EPIC and the local government Improvement & Development Agency (IdeA) will result in a system that will enable over 400 local councils (a workforce of 1.8m) to develop and share e-learning modules to support continued professional development and to better communicate best practices.

The first major on-line leadership development programme for senior civil servants (about 6,000) is under development through a partnership between CMPS, Enlighten, and Lancaster University. The programme will offer 'blended' learning solutions that incorporate both on- and off-line mentoring and support.

- to promote entrepreneurship and co-operative enterprise in communities isolated from the wider economy.

354. The potential of ICT as a method of promotion should also be explored. The ability to reach a wide range of individuals and employers through virtual networks could help to address problems of access and remoteness.

355. The LSC has a responsibility for promoting the benefits of learning generally. It is important that the branding, marketing and promotion of WfD is undertaken in a co-ordinated way so that all Government agencies present a joined-up agenda and consistent messages. These messages should be transparent and straightforward to encourage employers' and individuals' interest and participation.

Better information, advice and guidance is crucial

356. A demand-led WfD system relies on that demand being well informed. If we are to develop such a system, we must therefore ensure that individuals:

- are aware of the opportunities on offer;
- know which choices would be most appropriate and effective for them; and
- know how to access their chosen course or programme.

Improving the institutional arrangements

357. Current IAG partnership arrangements have achieved some success in joining up existing services on the ground at local level. Nationally, **learndirect** has reached large numbers of would-be learners through multiple ICT channels, including the web,[121] and has established a high-profile brand.

358. Bringing IAG partnerships and **learndirect** together into a coherent, integrated IAG service is the next logical step in the strategic development of IAG provision and would achieve multiple objectives:

- The whole system would be more visible, accessible and joined up.
- Improved referral arrangements between its constituent parts would make better use of existing channels for the delivery of services.
- Quality of provision and content could be made more consistent, while retaining the diversity of the current local arrangements.

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[121] There have now been over 3.3m calls to the **learndirect** helpline since it was launched in February 1998 and over 3.6m searches to the website since its launch in May 2000. 14% of callers identified their learning as 'for leisure', demonstrating that 86% of callers see their learning as work related.

- Better use could be made of existing marketing budgets, and a greater degree of public awareness would be achieved if the constituent parts of the service shared an easily recognised, common identity.
- A clear set of outcomes for the integrated service could more readily be developed.

359. There are different options for achieving this:

- The national learning helpline, currently managed by Ufi Ltd, could lie at the heart of the model, acting as the hub of a national service.
- Alternatively, an IAG unit within the national LSC or in each of its local arms could lie at the centre, managing a national service and ensuring co-ordination of the national helpline with the network of IAG partnerships.

360. Whatever model is chosen, the role of Ufi Ltd as the current manager of the helpline would need to be carefully considered, and steps taken to avoid any perceptions of a conflict of interest or a threat to the impartiality of the system.

361. The LSC is currently working with Ufi Ltd to produce a feasibility study for an integrated national and local IAG service.

Employers as sources of information and advice

362. Their employer is the first port of call for many individuals when seeking information or advice about work-related learning and careers.[122] The best way to help employers fulfil this role is to convince them of the value of WfD as a method of enhancing business performance. If employers are convinced, they will require or encourage their employees to participate in WfD activities.

363. But are employers able to provide good advice or know of the key sources of further help? A common brand for IAG would help raise awareness of services available. In the light of this, DfES and the LSC should consider a campaign to promote IAG to employers. The new national standards for guidance are being launched in January 2002 and the DfES and Guidance Accreditation Board are considering a marketing strategy to convince more employers of the value of adopting the standards. This would provide the ideal focus for such a campaign.

364. Larger 'blue chip' companies might wish to consider whether they should become accredited IAG providers to offer a full, impartial information and advice service to their employees. This is something the Government should seek to encourage, and DfES and IiP UK should consider whether such a requirement might form part of the criteria for IiP UK beacon status.[123]

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[122] 37% of users seek IAG first and foremost from their employer and are more likely to report a positive outcome from IAG. However, those who used an employer were also more likely than other users to cite difficulty in accessing relevant IAG.120.

[123] See para 322.

Box 9: Lloyds TSB Corporate University and Career Management Centre

The University for Lloyds TSB (UfLTSB), launched in July 1999, is modelled on Ufi Ltd. Seeking to make learning both more accessible and better linked to the needs of the organisation, the UfLTSB covers career and diversity management as well as having a faculty-based learning curriculum (Faculties of Change, Customer Service, Risk, etc.).

The award-winning Centre for Career Management (CfCM) was launched as part of the UfLTSB in 2001 and offers a range of IAG services, including:

- a web-based advice and information resource;
- a call centre in Bristol, offering careers and learning advice to employees by telephone; and
- opportunities for face-to-face interviews with around 100 trained career advisers.

The service is able provide impartial advice on learning and careers within Lloyds TSB, from beyond the line-management chain. The *Pathways* service is also being developed, offering support on both internal and external opportunities for those who have been displaced as a result of organisational changes. The CfCM has obtained formal accreditation according to the National IAG Quality Standards, and all advisers are working towards professional IAG qualifications.

Staff attitude surveys, carried out at regular six-monthly intervals, have shown a step-change in results for satisfaction with training and related morale issues since the launch of the UfLTSB.

... but doesn't offering IAG encourage people to seek work elsewhere?

In the words of one HR strategist, "the worst kind of employee is a reluctant one".

The Lloyds TSB approach is that effective, impartial careers advice provides the opportunity for employees to confirm that they are there because they want to be. It is a strategy for retaining the highly motivated and enabling the unmotivated to consider alternatives.

Some people need more intensive guidance

365. Very little evidence is available on the relative merits of simple information and advice compared with more intensive forms of face-to-face guidance, as it depends on individual need. Some find it straightforward to reach decisions about personal development, with only limited input from advisers. Others need much more intensive help to make sensible, well-informed choices. Current IAG arrangements provide public funding for information and advice, but not for in-depth guidance – individuals requiring this would usually have to pay for it themselves.[124]

366. While it is clearly not appropriate to fund full guidance interviews for everyone, there is a case for focusing more resources on the hardest to help. The DfES is currently piloting further work to determine the precise groups that might benefit from

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[124] Some IAG partnerships have managed to secure other funding, for example the European Social Fund, to support such activity.

publicly-funded, full guidance interviews, and what additional demand such an entitlement would generate. The results of these pilots should be used to help to demonstrate the likely impact of any expansion of the service beyond the provision of information and advice.

Those taking up the publicly-funded entitlements need good advice

367. There is a strong case for requiring individuals who want to undertake publicly funded training to seek information or advice from an integrated national and local IAG service before public funding is made available, because:

- the lowest skilled are identified as being particularly disadvantaged in accessing and benefiting from IAG services;
- this would go some way to ensuring that the best use is made of public funds;[125] and
- it would provide a mechanism for ensuring that individuals get impartial advice, and guard against the possibility of them wasting public money on unsuitable or inappropriately expensive training provision.

368. DfES and the LSC would need to consider carefully how such a requirement might work in practice and develop proposals for monitoring it.

The unemployed and those on the New Deal should be followed through the system

369. New Deal programmes and WBLA offer opportunities for individuals to undertake formal education and training, whether outside or within employment, under the guidance of a Personal Adviser. Jobseeker's Allowance rules currently allow an individual to study part-time without losing benefit, but that individual must be available for work. Jobcentre Plus already offers jobseekers information and advice about studying opportunities.

370. However, individuals are not currently targeted to receive WfD opportunities once they have moved out of unemployment and into work. Such opportunities are essential if these individuals, who are often the lowest skilled and most at risk of further periods of unemployment, are to achieve sustainable work and greater mobility within the labour market.

371. The following approaches could be considered:

- Offer more opportunities for jobseekers to receive guidance on part-time studying they wish to undertake while seeking work. This would ensure that individuals undertook appropriate courses which would enhance their employability.
- Establish sign-posting systems that encourage those who have graduated from the New Deal, and former jobseekers, to undertake further WfD. Much of this could be done through a referral system activated at the last point of contact, between the jobseeker and their employment adviser. In this way, successful jobseekers (and their employers) could be directed towards their local IAG partnership, ULR or other web/phone-based tools such as the **learndirect** helpline or Worktrain.
- Overall, better co-ordination of different Government welfare-to-work and WfD programmes could improve outcomes for individuals and help meet Government objectives. The linking up of these programmes presents considerable

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[125] Currently, Career Development Loans have to be endorsed by the local IAG partnership even though this is essentially the learner's own money rather than public funds.

Box 10: skillsformedia – the sectoral approach to IAG

September 2001 saw the launch of a unique new career development service, skills*for*media. The service is owned and managed by the media industry's National Training Organisation, Skillset, and specialist trade union, BECTU, which started the scheme under the Union Learning Fund.

The service includes:

- skills*for*media Direct – individual in-depth career management advice for experienced media practitioners;
- skills*for*media Express – one-to-one career advice for media graduates, new entrants and media professionals at the start of their career;
- skills*for*media Helpline – career advice and guidance by phone;
- skills*for*media Workshops – marketing and business development workshops run by media experts; and
- the industry-backed portal for information about media careers, qualifications and training in the UK (www.skillsformedia.com).

skills*for*media is a pioneering, industry-specific careers advice service, delivered by and for media professionals. Its advisers are working media freelancers trained as careers advisers and the service hopes to gain quality accreditation by the National Standards next year.

With funding from the European Social Fund, DfES and the Scottish Executive, the aspects of the service which are not free of charge, such as skills*for*media Express, will be subsidised until they become self-sustaining. Special emphasis will be placed upon supporting under-represented groups and reaching out across the regions.

The service also has close links with both **learndirect** and local IAG partnerships, and seeks to encourage better referral arrangements and information sharing. Industry specific IAG initiatives such as these have an important complementary role to play in the context of a national IAG service.

difficulties but is a vital aspect of reaching those individuals who are most at risk of exclusion from WfD.

Tackling financial barriers to participation by adult learners

372. Low paid and unemployed individuals are least likely to be involved in WfD activities. These groups are also the least likely to have disposable income to support learning activities. Almost a fifth of those surveyed quoted the costs of learning as one of the barriers to participation[126] and lack of finance has an impact on learning outcomes.[127]

373. The costs of learning are broader than tuition and can include childcare, transport, books and equipment. Currently, the disparity between funds available and the costs of participation in courses remains a

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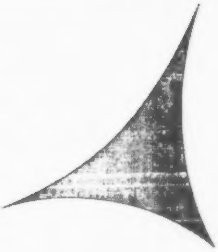
[126] *National Adult Learning Survey*, DfEE, 1997.

[127] When disadvantaged individuals do take courses, they are the least likely to complete them, H. Kennedy, *Learning Works*, op. cit.



financial barrier to engagement. A new system of adult learner support should ensure that low income students are not discouraged from studying for a qualification by costs such as tuition, childcare, transport and books.

374. While loans may be an appropriate vehicle for maintenance support or to cover participation costs for some adult learners, the rates of return[128] suggest that it would not be worth learners taking out substantial loans for qualifications up to level 2. In addition, the groups most likely to be in this position are also those that are most likely to be averse to taking on debt.

375. Maintenance grants may act as an incentive to study full time outside work. This is problematic because evidence suggests that formal further education and training are more effective when undertaken within work, and being in work itself can offer considerable opportunities for development.[129] Rather than full time study, part-time or flexible provision should be encouraged. In particular, making the best use of technology to support distance and e-learning should be encouraged, although this would require consideration of quality, access and motivation issues.

376. There may be a case for discretionary provision of support for living costs for adult learners in some cases, such as for those with severe basic skills problems, or those whose circumstances change while pursuing a qualification, or where a qualification demands heavy time commitment. The criteria and mechanism for this should be explored.

377. Financial support for students in higher education is more substantial. Means-tested grants for participation costs such as childcare are available, and students can take out income-contingent loans to cover living costs.

378. In the future, funding based on the nature of the course undertaken (vocational or academic), rather than the institution delivering the development, may be more appropriate as the boundaries between higher and further education become more blurred, with students at FE colleges undertaking HE courses, and HE institutions introducing foundation degrees based on a vocational model. Incentives to encourage individuals to participate in more flexible methods of learning, which may be more cost effective, could be considered.

Tackling time barriers to participation

379. Qualitative research for the PIU undertaken by MORI suggests that the most frequently cited barrier to development by individuals is lack of time; this is echoed in the NALS research. The only current Government intervention in this area is the right to time off for 16–17-year-olds without a level 2 qualification.

380. A range of approaches could be considered to overcome the time barrier. A number of criteria need to be considered when choosing the correct intervention, including:

- actual effect/objective;
- cost and deadweight;
- administrative ease;
- enforceability;
- value for money;
- attitude of employers and unions; and
- regulation in proportion to the extent of the problem.[130]

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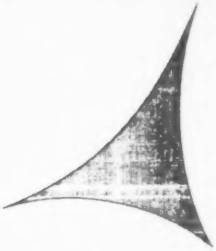
[128] See Chapter 4.

[129] OECD Jobs Study; *Employment Outlook*, OECD, June 1999; Joint Employment Report, EU, 2001.

[130] *Think Small First. Supporting smaller businesses in the United Kingdom – a challenge for Government*, Small Business Service, 2001.



381. Possible approaches that could be considered in this area are:

Promotion and best practice

382. The promotion of WfD to employers would help to pinpoint more clearly the benefits that could be achieved through investing in their workforce (e.g. adults with poor literacy skills may be a health and safety hazard in some workplaces, but employers may not have considered the potential consequences). This could be carried out through:

- peer advisers at individual firm level, who would work with staff and employers to demonstrate the benefits of WfD and find ways of best delivering such development;
- sectoral approaches, whereby organisations such as the SSCs could promote specific benefits of WfD to their members to sell WfD as an investment for the future; or
- best practice benchmarking or comparisons in order for individual firms to see how they compare with others and consider how this impacts on their business performance.

Financial

383. There are a variety of financial incentives that could be adopted, including:

- targeted help with tuition and accreditation costs;
- compensation for wage costs for businesses that give time off;
- support for business for employing staff to cover absences, linked to the administrative cost, for example, of finding replacement staff;
- support linked to business initiatives that helped to overcome time barriers (e.g. businesses providing individuals with computers to learn from home outside work).

384. As with all financial incentives, there are a number of mechanisms by which they could be delivered, and a range of models would need to be explored.

Statutory approach

385. The central objective is to build WfD into the practice and planning of businesses large and small. However, there may be a case for a more formalised statutory approach. Such a decision would be a significant undertaking. Careful consideration, including a full regulatory impact assessment, and wide consultation would be necessary before proceeding with any specific proposal.

386. Getting the design right for any intervention to reduce time barriers would be crucial. There are a variety of approaches that could be used, which would further reduce time barriers and ease the potential burden on employers. Highlighting the importance of partnership between employers and individuals, and the need for both to take responsibility for WfD, is particularly important.

387. A number of factors need to be taken into account:

- the nature of provision. In many cases, WfD takes place outside normal working hours at college or through distance learning. The growth of e-learning should expand the range of such provision and make it more accessible to a wider audience by increasing its flexibility. Therefore the promotion of e-learning approaches may be beneficial. However, participation in such WfD demands a high degree of motivation and commitment that many lower-skilled adults may not demonstrate;

- the case for different approaches for different groups and, if so, what the criteria should be, e.g. prior qualifications, need to obtain specific qualifications, wage level. It may be appropriate to focus attention on one group, i.e. those without basic skills, but over a period of time this focus could change;
- the extent to which partnership approaches could be used. For example, employers providing premises or equipment for employee use outside normal working hours, or both employer and employee contributing time, could be a positive way forward where both are committed;
- the impact on employers, particularly small employers, in terms of cost, loss of staff time and the administrative burden of introducing any requirements to provide WfD or time off for WfD; and
- links to qualifications. If financial or regulatory incentives were used, should they be linked to the achievement of specific qualifications?

388. Some business support has been expressed for a right to time off for basic skills. Any such right would need to be well targeted where the market failure is greatest and on those most likely to benefit. This would be a significant undertaking with complex pros and cons, which would only be taken forward when preceded by a Regulatory Impact Assessment that shows the costs and benefits of such a policy.

Mechanisms for empowering employers and individuals

Empowering small firms

389. The analysis in Chapters 3 and 4 shows that small firms face particular problems which discourage them from engaging in WfD, including:

- capital constraints;
- lack of access to information;
- lack of time;
- weak supporting networks; and
- fear of poaching.

390. However, around 50% of workers with less than level 2 attainment work for firms with fewer than 50 employees who may not offer training or support for their employees. Therefore, there is strong justification for Government interventions aimed at tackling the market failures and barriers that prevent small firms from training.

391. Raising demand for WfD amongst small firms is likely to be more successful if it is clearly linked to business development. By helping small businesses to survive, grow and develop, the derived demand for WfD is likely to increase. In addition, small firms often display little interest in WfD itself, but their interest can be increased by demonstrating the links between WfD as a solution to business problems, or as a driver for business growth or improved results. Therefore incentives based around business development are likely to be more attractive to small firms.

392. Increasing small firms' purchasing power over business development is key to raising demand for WfD. This enables firms to purchase what they require, when it is needed, from a wide variety of suppliers with minimal bureaucracy.

393. A simple, accessible package of support, with the capacity for it to be tailored to the diverse needs of individual businesses and local circumstances, is therefore desirable.[131]

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[131] Company Learning Accounts were recommended by the Small Business Council in its July 2001 annual report.

394. Such a package could contain:

- support for management/business development;
- incentives for analysis of training needs;
- funding for quality awards (e.g. IiP);
- incentives for network participation;
- incentives to achieve qualifications; and
- small firms' training or business development loans.

395. Various options could be used to deliver each element of this package, including:

- cash grants to spend on WfD activities;
- vouchers to be spent on specific activities;
- tax credits to incentivise expenditure on WfD; and
- loans for business development/training.

396. Government must take into account a number of factors when selecting appropriate mechanisms to ensure that value for money is achieved, policy objectives delivered, and simplicity maintained. These include:

- the level of demand and possible cost to the Government of each of the elements of the package;
- the extent of deadweight, and how this could be minimised by targeting specific areas where evidence of market failure is clear;
- inappropriate use of funds;
- restrictions (e.g. certain elements only available to firms of a particular size or to those who have reached a certain stage of development or growth, an overall cap on what an individual firm can receive);
- establishing outcome measures that encourage the best use of the package; and
- ensuring the business support network has the capacity to deliver.

Box 11: The Small Firm Learning Account

The *Small Firm Learning Account* is a pilot scheme aimed at encouraging small firms of between 5–49 staff to encourage their employees to take up ILAs and use them for development that meets both personal and business needs. By registering on the scheme, the employer is offered either:

- a visit from a Skills Coach to provide help identifying learning objectives which meet individual and business needs; or
- attendance at a free local workshop to provide practical help in identifying learning needs related to business needs. If companies choose this option **and** once 50% of staff have applied for an ILA and 75% of these have booked learning, they receive the £500.

When an employee opens an account and uses the discounts on training endorsed by the employer, the discount is increased by £50. Employers' contributions to ILA are tax deductible, **provided the offer is made to all employees**. Employees are not subject to tax or NI contributions on the employer's contribution.

The pilot will be revised now that ILAs are no longer relevant, but the essential features of incentivising the employer to engage the workforce in learning will be retained.

397. DfES is currently examining a similar model (see Box 11). The next stage of this project will address how such a package might be designed.

Empowering individuals

398. Lack of demand often arises from a lack of motivation or a fear of learning. By empowering individuals through putting purchasing power in their hands, Government would be seen to trust and value individual choice, thus helping to enhance motivation or remove fears.

399. Possible mechanisms for delivering purchasing power to individuals include:

- cash grants to individuals to spend on development activities;
- tax credits to incentivise increased expenditure on WfD;
- learning vouchers which can be spent with different providers;
- subsidised loans for WfD – income-contingent or mortgage-style; and
- a form of individual learning account mechanism.

400. As with employers, a number of factors would need to be taken into account in deciding on the best option, including:

- the ability of Government to respond to open-ended demand, leading to high levels of expenditure and the potential for capping such expenditure;
- the extent of deadweight, and how this could be minimised by targeting specific problems where evidence of market failure is clear;
- the ability to secure value for money and quality of provision;
- minimising the risk of abuse or mismanagement. Tight central control may reduce the risk of abuse or mismanagement but may fail to achieve policy objectives. A system that based controls around both training providers and individuals would reduce the potential for abuse. However, this requires careful balancing of controls when designing the delivery system;
- establishing outcome measures that incentivise desired behaviours; and
- ensuring that the right market conditions are in place to support a demand-led system (e.g. widely available systems of IAG to help individuals make informed choices).

Figure 36: How one option might work – a new form of individual learning accounts

A new form of account mechanism could address weaknesses within the WfD system, such as low demand from low skilled individuals. It is a potential delivery mechanism for connecting individuals with opportunities, and provides a mechanism through which multiple targeted or universal resources can be delivered.

For instance, such an account could include:

- funding for specified achievement which could be spent with a range of providers on a range of provision covering both classroom and e-learning;
- discounts to encourage lifelong learning;
- a link to compulsory initial assessment of need and appropriate options; and
- a tracking system to follow up achievement with more options for development.

Incentivising partnerships between individuals and employers

401. WfD is more effective when employers and individuals work in partnership although they may not always have the same goals. By aggregating resources between employers and individuals, the total amount of resource is increased and mutual benefit is more likely to be obtained. WfD partnership-based approaches are consistent with approaches being adopted in other areas of Government policy balancing the rights and responsibilities of stakeholders.

402. Government also has a role to play in partnership arrangements as Government funds can have the most impact if they are used as leverage for private funding in targeted areas/scenarios.

403. Examples of successful partnership approaches are shown in Figure 37.

404. The key to the success of partnership working is the ability of local agencies, employers and individuals to put together funding packages that maximise the impact of any Government's contribution. The role of the SSCs in developing sector-based partnership arrangements is also critical. Therefore flexibility in the operation of such arrangements is required.

405. DfES is currently undertaking pilot studies looking at combining individual and employer contributions to WfD. This could be further developed, through individuals and small firms combining their new purchasing powers and being able to negotiate better training deals. Government intervention in the form of top-up funding or other benefits (e.g. free advice) for employers who implement partnership arrangements could act as a further incentive.

406. A similar approach could be extended to the community to help hard-to-reach groups. By providing some incentives for individuals to combine their individual purchasing power, similar benefits in terms of better value for money would be achieved as well as increasing motivation.

Figure 37: Partnership working

Ufi has developed a diverse set of partnership models to make learning available to learners and firms, including SMEs. In addition to its co-branding and co-locating efforts with UK online centres and FE Colleges in local communities all over England, Ufi has developed 8 sector partnerships in 7 industries, with another 15 sector-based projects in pilot or planning stages. The initial 8 sector projects have resulted in employees taking up over 12,000 courses from 1 April to mid-October 2001. These sector-based partnerships reach SMEs and their employees directly through various sector business networks, and reach the employees of large firms through their supply chains.

7. MEETING DEMAND WITH HIGH QUALITY WFD PROVISION

Summary

- A demand-led system requires a responsive supply side which can meet demand through the provision of high quality, relevant training and development.
- Current funding regimes do not adequately incentivise the achievement of desired outcomes on the supply side and can provide perverse incentives to meet intermediate targets rather than add value.
- The systems of quality assurance for WfD could be further enhanced to reward good providers and strengthen sanctions for poor providers who not improve despite support to do so.
- A more diverse mix of providers and methods of provision needs to be supported by helping to build capacity.

Introduction

407. This chapter sets out three key objectives for ensuring providers of WfD are well placed to respond to a demand-led WfD system. It emphasises the importance of ensuring that the supply of WfD is adequate in terms of quality as well as quantity to meet both existing and projected future demand. It also focuses on the need for effective funding regimes for publicly funded WfD to incentivise the achievement of desired outcomes and to ensure that taxpayers obtain best value for their investment.

408. The three objectives are:

- to restructure funding regimes to improve incentives for high quality provision;
- to raise standards of provision across the public, private and voluntary sectors; and
- to increase capacity within all sectors, particularly the capacity to provide training in essential WfD skills such as ICT.

New methods of funding to support provision

409. The current funding mechanisms used by the LSC have been carried forward from previous structures which distinguished between FE college-based provision, work-based learning, and adult and community learning. In addition, the LSC has responsibility for other funding streams not directly related to WfD.

410. An effective funding regime needs to incentivise the achievement of desired outcomes while committing sufficient resources to guarantee the standard of quality required. This regime should be flexible enough to recognise local needs or to respond quickly to unexpected changes, while stable enough to enable providers to plan ahead with some degree of confidence.

411. The LSC is currently developing a unified funding regime that will bring together all of its budgets and ensure that all programmes and providers are funded according to a common funding mechanism. The design and implementation of a unified funding regime is a significant task and will be undertaken in stages.

412. This new funding system will assign responsibility to local LSCs for the allocation of funds to FE colleges and work-based learning providers, moving away from the existing national allocation system. The allocation will be based on the colleges' own plans which should clearly indicate how they will fulfil local employer needs. In addition, local LSCs will have responsibility for determining the allocation of the smaller, earmarked WfD budget.

413. As the new funding system develops, the LSC has a role in:

- ensuring that it provides positive incentives for colleges to work proactively with employers as part of local WfD strategies;
- seeking ways in which the employer/college relationship could be put on a more commercial basis; and
- building greater flexibility into its budget to enable local LSCs to address local WfD and infrastructure needs.

414. Chapter 5 outlined plans to gradually transfer funding into the hands of individuals and employers. If this system were to be implemented, over a period of time, an increasing proportion of the allocation of public funds to providers would come through individuals and employers. This would enable purchasers to exercise buying power, while enabling providers to work with customers to develop innovative ways of using such funding.

415. In order to maintain a degree of stability in the provider network, however, it would be necessary under such a scenario to retain the ability of the local LSCs to contract directly with providers for certain types of provision, e.g. basic skills. Therefore, in the long term, the LSC budget might divide into three blocks:

- Funds allocated to individuals and small firms seeking to upgrade their skills or secure entry level qualifications through specifically targeted provision. This might take the form of individual accounts for learning, some form of development accounts for small firms, and innovative ways of linking the two. This would enable direct purchase of development by firms and individuals, and would be a powerful means of reflecting and raising demand.
- Resources to support the provider network such as:
  - central contracting for specific groups if deemed essential;
  - capacity building;
  - national priorities associated with the Standards Funds;
  - sectoral agendas;

  - labour market information; and
  - capital development funds.

- Local discretionary funds to support individuals, firms, and communities. Discretionary resources held by local LSCs are a vital means of addressing specific local circumstances (e.g. regeneration, redundancies or technological change) and supporting innovation.

416. This reshaped budget would need to be accompanied by an increasing degree of budget flexibility for the LSC, both locally and nationally, to better meet needs through strategic investment and to enable improved leveraging of other public and private resources for WfD.

417. Criteria would need to be put in place to guide the allocation of discretionary funds to ensure that it supports local needs and local plans, is in line with national and local LSC targets, complements initiatives such as the Rapid Response Fund, and represents value for money for the Government.

418. Key considerations should include support for:

- priority local and regional growth sectors (e.g. industries, clusters and key firms);
- environmental or economic crises (although care needs to be taken to ensure that this does not duplicate the Rapid Response Fund);
- community regeneration and renewal projects seeking to leverage existing resources;
- innovations in WfD seeking to expand their reach, scope or scale;
- technology access and use (for enterprise, commerce, learning, etc.) within firms and among local providers and areas; and
- entrepreneurship or co-operative enterprise in targeted communities that lack access to such business development resources.[132]

Improving the quality of WfD provision

Stimulating and rewarding quality provision

419. Historically, inspections of FE colleges[133] and WBL providers,[134] while recognising examples of excellence, have highlighted incidences of mediocre or poor provision, which did not appear to improve over time and yet incurred no financial or other penalty. A key objective of the LSC working locally is to raise the quality of provision across public, private and voluntary providers.

420. Since its establishment, the LSC has produced a quality strategy which aims to ensure that all providers reach a satisfactory level of provision and, over time, to fund only high quality provision. Local LSCs have started to implement many aspects of this strategy. Key aspects of the strategy, all of which should contribute to improved quality, include:

- local review of performance three times a year, to quickly identify underperformance and enable intervention to take place at an early stage;
- support for poor providers to improve;
- the introduction of a national learner survey to measure user satisfaction; and

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[132] Existing programmes tend to run with little or no supporting skills development. An exception is a pilot programme, the New Entrepreneur Scholarship, combining skills and employment for people from socially-deprived areas. Delivered jointly by a number of organisations including the Prince's Trust.

[133] *Quality and standards in Further Education in England*, 1999–2000.

[134] *Reaching New Standards: Annual Report of the Chief Inspector 1999–2000*, The Training Standards Council Report, 2000.

- an increased focus on self-assessment by providers.

421. The strategy also aims to tackle a number of other key issues on which policy work is now being taken forward:

- improving the quality and qualifications of staff in public, private and voluntary providers;
- enhancing mechanisms for easily providing potential customers with quality information relating to individual courses; and
- developing appropriate performance indicators and benchmarks for work-based learning.

The quality and qualifications of staff need to be enhanced

422. WfD requires high quality training staff who are skilled in teaching methods and up to date in their particular area of expertise. The Employment National Training Organisation is currently developing occupational standards and a structure of vocational qualifications that can be undertaken by private and voluntary sector training staff to match that adopted by the FE sector for its teaching staff. This should have a significant impact on the quality of teaching available if implemented on a timely basis.

423. In addition, since March 2001 all post-16 providers, registered on the post-16 provider database, regardless of size, have been required to produce annual self-assessment reports in line with the new Common Inspection Framework. One of the requirements of this new approach is that all providers should have up-to-date plans for the professional development and training of all their staff. If properly implemented, this should help to address the quality and qualifications of staff.

424. The professional development and training of staff should be planned with a clear focus on the need to maintain leading-edge industry and technological knowledge and to develop appropriate local business links and experience. In addition, up-to-date ICT skills are essential both for the delivery of training using a variety of methods, and to pass on the latest ICT techniques to students. Self-assessment training plans must adequately reflect this focus.

425. The standards fund operated by the LSC currently allocates funds to FE colleges for staff development. If teaching standards are to be driven up, there are questions about whether such funding is only available to public sector providers. This could be considered in the context of introducing a requirement for all trainers to obtain specialist qualifications.

Comparable customer quality information should be made readily available

426. Currently, potential customers can access inspection reports via the web,[135] Many FE colleges, under the FE charter, and WBL providers, as a matter of good practice, provide quality information to prospective students. National statistics on student retention and achievement of qualifications are also collated and published on the web.[136]

427. The local LSCs examine customer satisfaction data as part of the regular four-monthly performance reviews of provider performance. The LSC is also setting up a new national survey of learners to oversee local survey activity, all of which will feed into a new set of quality indicators covering the diverse range of post-16 provision.

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[135] http://www.lscdata.gov.uk/documents/inspectionreports/index.html

[136] http://www.lscdata.gov.uk/data/analysisandbenchmarking.html#9798

428. All of the above developments will produce data that can be turned into valuable information for customers. To maximise the use of this information, the development of a readily accessible mechanism or source to enable potential customers to obtain comparable information would be beneficial. Such information could include customer satisfaction, retention and achievement rates on specific courses, and the ultimate success of individual courses in helping participants obtain employment.

Quality benchmarks and performance indicators should be developed for WBL

429. The LSC is currently developing a range of provider performance indicators for WBL. These should be based on the requirements set out above.

430. Training providers may not just provide training for LSC-funded programmes but may also contract with other national or local government departments or organisations. To prevent duplication of effort and ensure that information is readily available to those wishing to contract, an easily accessible database of quality information concerning all providers involved in the provision of publicly funded programmes would be helpful. Government departments would have to agree on responsibility for the content and maintenance of such a database.

431. Entry on this database would follow satisfactory completion of an initial assessment based on criteria covering elements of customer satisfaction, technology capability and quality of staff. The LSC has recently issued such criteria.

Box 12: Getting the Best from Each Other

Getting the Best from Each Other is a DfES initiative proposing new ways of working between DfES and its providers (excluding schools and higher education services). The consultation document proposes a new framework of principles for sharing best practice among departments, agencies and providers.

The emerging framework focuses on strengthening contractor–provider relationships in line with five key principles, including:

- a focus on outcomes;
- a needs-led approach;
- improved standards;
- modern funding and contracting practices; and
- continuous improvement and shared learning.

Respondents have been largely positive about the framework proposals, both in writing and at the 20 events that were held around England. DfES is considering how to best mainstream the findings of the consultation both within the Department and associated NDPBs, and exploring the potential for wider application across Government, emphasising those other departments and agencies which share the same provider base as DfES.

Further information, including a copy of the consultation document, a summary of responses and the action plan (when published) can be downloaded from: http://www.dfes.gov.uk/consultations/sor/results_sor.htm

Developing the COVE initiative

432. Another key element of the LSC's approach to quality is the implementation of Centres for Vocational Excellence (COVE). The award of COVE status should be a recognition of innovation and imaginative provision, not just good provision. The criteria should be set to make the achievement of COVE status challenging and forward-looking.

433. Currently, only FE colleges are eligible to apply for COVE recognition although the range of organisations eligible to apply may be expanded in the future. To encourage innovation and productive partnering arrangements, a wide range of organisations should be eligible for COVE recognition. At this stage, barriers to such arrangements (for example, the provision of capital funds to certain types of providers only) could be reviewed and a timescale set for expansion of the initiative. Work to bring greater coherence between the COVE initiative and New Technology Institutes, University Innovation Centres and the Manufacturing Advisory Service should also be further developed.

Inspecting and assuring quality

434. Inspection is only effective as a tool if the results of inspections lead to improvement. In the past, a small number of instances have occurred where WBL providers have not improved but no sanctions have been applied,[137] although in the majority of cases re-inspection did lead to improvement. The LSC has powers to address this situation, and can, after a period of support and advice, reduce or withdraw contracts from providers who appear incapable of improvement. This may not always be appropriate if there is no alternative source of provision available. In the most serious situations, the Secretary of State may intervene to deal with problems in FE colleges and has the power to remove college governors. The ability of the LSC to intervene directly (e.g. to invite in private or voluntary sector managers to take over failing colleges) may need to be reviewed as the LSC's quality strategy develops.

435. The new Common Inspection Framework, which applies to all providers not just FE colleges, aligns criteria between OFSTED and the Adult Learning Inspectorate (ALI). This is a recent development and would merit evaluation in the future to ensure that the joint arrangements and new criteria were adding value to the inspection process.

436. In addition, the marketing of the inspection framework to in-house providers should be considered. This would provide in-house training with an independent assessment of its quality which may be useful for firms seeking to fulfil quality standards

437. In the longer term, the need for separate inspection bodies for various elements of the education system involved in WfD, including schools and higher education, should be reconsidered, as should the drawing of the boundaries between the inspectorates.

Building WfD provider capacity

438. In a demand-led system, the capacity of suppliers to provide what is required promptly and to an appropriate standard is crucial. Part of this capacity is the ability to react quickly to change and to remain at the forefront of workplace developments. Therefore, it is not enough to facilitate existing providers to become better at delivering the same training. There is a need

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[137] *Reaching New Standards: Annual Report of the Chief Inspector, 1999–2000*, op. cit.

Figure 38: Building provider capacity

Building capacity among new providers (private or voluntary sector organisations)

New providers may need assistance with process issues (e.g. contracting processes, self-assessment, etc.), and some may need assistance with basic organisational capacity issues. Private providers may not be familiar with Government structures and funding. Similarly, voluntary sector providers might not offer access to new technologies. The local LSCs should take primary responsibility for creating a richer, more diverse, and better quality network of providers in their local areas by helping to address such issues.

Building capacity among firms as providers

Firms are already key providers of formal and informal WfD. For firms engaged in formal training or interested in establishing training facilities, the local LSC should assist in seeking ways that such facilities or training capacity could be used more broadly to help make existing high quality provision available to a wider customer base.

to open up the supply side to new entrants who can develop and deliver innovative new training and/or methods of training. Figure 38 suggests ways in which this could be done.

439. In assisting local providers with their capacity building efforts, local LSCs should pay particular attention to the ways in which providers are integrating new technologies into their provision:

- maintaining effective technology infrastructures instils confidence on the part of funders, learners and employers;
- improving use of existing technology and access points, including **learndirect** and UK Online, can help providers increase the breadth or depth of existing markets and help develop new ones;
- incorporating new technologies to support learning encourages innovation and quality throughout the sector; and
- developing content for on-line provision either through brokers, firms, other providers, or through their own systems can help build fee generating enterprises.

440. Local LSCs need to adopt a strategic approach to building capacity through working with public private and voluntary training, education and WfD providers. This approach should focus on management, quality assurance, contracting, technology, finance and other critical organisational capabilities, as well as considering the number and mix of providers available.

Box 13: Capacity building for a demand-led approach: Bradford Project

By forming closer connections between employers and staff delivering their programmes, the ES could become more efficient and effective, improving outcomes for individuals and employers alike. The ES and partners in Bradford – a diverse and low income city in Yorkshire – agreed to participate in a project to build their capacity to better meet the needs of local employers

With assistance from DfES, a partnership consisting of Bradford ES, Yorkshire Forward (the RDA) and local training providers is preparing to launch a project that will be led by a new Capacity Building Team working alongside Bradford ES. The project will address the following objectives:

- Develop the capacity of ES providers, ES staff and local strategic partner organisations working with unemployed people to meet employers' demands for quality, service, reliability and cost from the services provided by the ES.
- Engage employers, especially SMEs, in the design and delivery of provider programmes in a systematic and sustainable way.
- Prepare unemployed, disadvantaged individuals, particularly ethnic minority and unemployed young people, for good jobs and new careers.
- Produce best practice templates, along with tools and techniques for employer engagement (by providers, ES staff and local strategic partner organisations), which can be replicated with other providers and strategic partners.

In addition to delivering quality services to individual and employer customers, the project hopes to inform the future development of new models for effectively connecting individuals with jobs, support and appropriate training based on both client and employer needs.

8. DEVELOPING A GOVERNMENT FRAMEWORK TO SUPPORT WFD

Summary

The proposed demand-led WfD system needs to be supported by an effective Government framework. This framework needs to be developed through consultation and further review. Aspects to be considered include:

- **the development of a set of shared outcomes for the key Government stakeholders underpinned by a comprehensive accountability structure;**
- **the establishment of a system for the collection, collation and dissemination of reliable and timely labour market intelligence to inform planning and decision-making by all stakeholders in WfD; and**
- **the responsiveness and flexibility of the qualifications system.**

Developing shared outcomes for WfD

WfD cuts across a number of Government agendas and departments...

441. Responsibility for WfD is shared primarily across DfES, DTI, DWP and their agencies. All of these have targets linked to WfD. However, the extent to which WfD is central to each department's work varies according to their differing roles.

442. While WfD is central to achieving the Government's objectives of increased productivity and social inclusion, it can be hard to develop outcome measures for WfD which reflect these objectives:

- defining the link between action taken and achievement is problematic; and
- different elements of WfD are delivered though assorted programmes and organisations, with subtly different aims and objectives.

443. There needs to be a shared understanding of what outcomes the Government seeks to achieve from WfD, which all departments and agencies can aim towards.

... but needs to be based on common goals

444. Shared outcomes between all the players are needed so that:

- the intended outcomes of WfD will not be sidelined by an agenda too focused on only one element – whether skills, employment or productivity;
- national, regional and local organisations will be better able to 'join up' their efforts on WfD; and
- employers and individuals are not confused by local strategies with conflicting objectives.

Figure 39: Potential outcomes and success measures

Achieving higher productivity through WfD

Outcomes	Success measures
Business success	• Higher productivity/profitability • Business confidence • Higher rate of business growth • Customer satisfaction

Outcomes relating to business success should be closely linked to regional and local economic development strategies.

Outcomes	Success measures
Employment opportunities and career progression	• Acquisition of qualifications and skills (and) • Periods of continuous employment (and) • Increase in earnings (and) • Employee satisfaction

The success measures above should be used in combination rather than as separate measures:

- Employment without increased earnings does not offer career progression.
- Qualifications do not necessarily lead to increased earnings.
- Relative earnings increase is a measure of labour market bargaining power.
- Employee satisfaction should be a particular priority.

Outcomes	Success measures
Quality and responsiveness of WfD provision	• Customer satisfaction • Private sector investment in high quality WfD provision • Impacts on business success, employment opportunities and career progression

Customer satisfaction data can inform future customer decision-making, but does not provide a complete picture of quality. Increased private sector investment is a measure of confidence in provision, but not quality.

Achieving social inclusion through WfD

Outcomes	Success measures
Social inclusion	• % of those previously not involved in the labour market who become involved, particularly those with no or low qualifications.

Social inclusion determined by a range of factors of which WfD is only one. Engagement in WfD (or work or learning) is one of a number of possible measures of movement from exclusion to inclusion.

445. Research carried out in the US[138] has shown that the most effective WfD programmes focus relentlessly on employment or advancement as the goal of participation, work closely with employers in the design of programmes and services, and hold participants to high expectations.

446. Outcomes should be set at a high level and supported by a small number of clearly defined success measures as appropriate. Relevant departmental and agency targets should be set in accordance with these outcome measures so that they are not working towards conflicting goals. Figure 39 sets out some examples of the outcome and success measures that might be developed.

447. Figure 40 gives an example of a shared performance measure. The outcome measure described is 'Wage Gain' which is one of the key indicators of career progression.

448. There is a strong case for an overarching Public Service Agreement (PSA) outcome fitting into the current PSA structure and shared between DfES, DTI and DWP reflecting the overall goals of WfD. This would inform the target-setting processes of the three departments, their agencies and partners and provide a clear focus on WfD as a defined cost centre.

Establishing clear accountability for achieving outcomes

449. To make shared outcomes work, it needs to be clear who has responsibility for delivering the different elements of the system at national, regional and local levels, and how these institutions need to join up. It will also be important to consider the role of the newly emerging SSCs since their expertise will be focused around specific industries, cutting across national, regional, and local boundaries.

450. DTI, DfES, and DWP should work together to establish a clear and appropriate division of accountability for delivering common WfD goals. The accountability framework should define responsibilities at national, regional and local levels. It should ensure the planning and processes undertaken by the different institutions are co-ordinated.

Figure 40: Developing relative wage gain as a shared performance measure

In the US, recent welfare and WfD reform has raised the profile of wage gain as a key performance indicator. It is now used in most employment and WfD programmes at federal, state and local levels.

- *Why?* Increased earnings are certain positive outcomes for customers. Using 'wage gain' as a performance measure also incentivises staff to help customers identify high-impact development opportunities and good jobs rather than simply facilitating 'participation' in development.
- *What?* Although the formula for determining wage gain does vary by programme, it is generally determined by comparing pre- and post-programme wages of customers. Local targets are set in relation to median wage levels in local labour markets.

Importantly, wage gain is not the sole performance indicator in any WfD programme. But when coupled with complementary measures such as customer satisfaction and achievement of qualifications, it is an effective means of ensuring that real customer outcomes are achieved.

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[138] J. Strawn and K. Martinson, *Steady Work and Better Jobs*, New York: Manpower Demonstration Research Corporation, 2000.

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Accountability needs to be held at a national, senior level...

451. Accountability at national level is currently split. It needs to be integrated and focused, both in terms of overall strategy and day-to-day delivery, to support the delivery of the future policy framework set out in this report. There are a number of ways in which this could be achieved, one way being through a Minister reporting to a Cabinet sub-committee supported by a cross-departmental WfD unit. Whatever structure is developed needs to:

- be able to exert influence across Whitehall at both Ministerial and official level;
- have control over the budgets involved;
- have credibility with the main stakeholders involved;
- have sufficient time to dedicate to the task;
- include the key players;
- be composed of the right mix of skills and knowledge; and
- be committed to and skilled at delivery.

452. Ultimately, the structure at national level needs to be able to embed WfD in the key departmental agendas. The Government should have responsibility for setting the overall strategic direction and establishing an appropriate accountability framework. Regional and local areas are, in turn, responsible for co-ordinated planning and aligning, delivering excellent performance, and maximising the impact of their individual and collective investments.

... at regional level...

453. At regional level WfD should be linked to economic planning.[139] A possible vehicle for taking this forward in the short term is the Framework for Regional Employment and Skills Action (FRESAs) co-ordinated by the RDAs.[140] Although any number of local workforce or skills planning mechanisms could provide such a vehicle, local stakeholders are just beginning to organise around these plans, which could stimulate a higher level of co-ordination and collaboration across regions and local agencies.

454. RDAs are responsible for economic planning at regional level. WfD is an important component of economic planning. The RDAs will therefore be responsible for collaborating with partners, in particular the local LSCs, to ensure that the WfD and skills agenda is appropriately reflected in economic planning, and is then successfully delivered in their regions.

... as well as locally, where flexibility is key

455. Locally, planning and delivery of WfD should be focused around the 47 local LSCs, with each LSC responsible for consulting with key partners including SBS, ES, local authorities and others.

456. The local LSCs are well positioned to begin moving towards shared accountability immediately by using their discretionary resources strategically. Over time, the discretionary portion of their resource will increase. This flexibility, together with better aligned accountability between regional and local partners, should support the ability of local LSCs to invest strategically, increase their impact locally and build credibility in their communities and amongst their private and public partners.

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[139] Skills are a key challenge among all the RDAs already and the recent CBI evaluation called upon the RDAs to adopt skills as a key priority. *RDAs Getting down to business*, CBI, August 2001.

[140] These frameworks are joint plans reflecting the roles, targets and long term plans of the key partners including the RDAs, the LSC, the GOs, the ES and local authorities.

Box 14: Great expectations in Tyne and Wear

Tyne and Wear is one of four local LSC areas in the Northeast Region. It falls in the lowest performing category on almost every measure of economic and community health. However, local planners and policy makers in Tyne and Wear are working with a variety of partners in the area and region to tackle these challenges head-on. Key local challenges relate to the skills and ambitions of individuals and firms:

- The economy is more reliant on manufacturing than other parts of England and this sector has been subject to considerable volatility over the past several months. Employment rates are already lower in Tyne and Wear than in England overall (62% and 68% respectively).
- The economy is overly reliant on lower-paying jobs and claims a disproportionately low number of managerial and professional positions.
- ICT skills are in demand among many employers, but ICT-intensive firms are experiencing lay-offs and are reticent to invest in developing these skills among their employees.
- Only 7.5% of individuals are self-employed in Tyne and Wear, compared with England's 11.5% average.
- Talented young people are leaving Tyne and Wear after completing their education – the area suffers from 'brain-drain'.

What is the local LSC doing?

First, the local LSC is working closely with the RDA (One-Northeast) to ensure that, where possible, LSC resources support regional efforts to move from the current 'low skill equilibrium' to a 'high skill, high wage' economy where high paying jobs are available for individuals who acquire new skills. Specific examples include: aligning efforts and resources – where possible – with RDA investments in regeneration projects, entrepreneurial initiatives, and innovative strategies to address specific community challenges including redundancies and transport issues.

Second, as evidenced by the extensive consultation process in which it is currently engaged, the local LSC values relationships with local and regional public, private and voluntary sector partners – including employers – with common interests. LSC staff are collecting information and intelligence about community activities not as a 'tick-box' exercise, but with the intent to improve partnerships and align efforts in ways that enable all stakeholders to generate greater impact.

Finally, the local LSC is engaged in efforts to build its own capacity to better deliver on its local priorities. In addition to staffing changes and training, the organisation is attempting to be more thoughtful about setting priorities and identifying core competencies to inform business planning and collaboration with other agencies and entities.

As the new organisation – established in April 2001 – grows into its role, it is modelling the integrity and good practice that contribute to its effectiveness and to that of partner organisations. Together, these organisations seek to create better opportunities for individuals and firms in their areas.

Box 15: Framework for Skills for the Rail Industry

This 18-point action plan was launched in April 2001 following extensive collaborative work by the Strategic Rail Authority (SRA) and DfES. The Framework sets out a coherent strategy for developing people in the industry and has identified six broad themes for action:

- overcoming obstacles to recruitment and labour supply;
- improving training for people in the industry;
- increasing the number of people gaining nationally-recognised qualifications;
- using the regulatory and franchising arrangements to improve skill levels;
- ensuring that high quality training and assessment is available; and
- training, development and qualifications for priority occupations: a) drivers, signallers and track layers, b) 1st line/middle management; and c) graduate and professional staff.

The Framework for Skills establishes a strategic plan for the next 10 years in these key areas. Government will support the implementation process in its first 2 years. This support has three complementary aims: to provide initial resources to kick-start action; to lever resources from the industry and key stakeholders to sustain momentum; and to evaluate the impact of the strategy.

SRA and DfES will be working with the Rail Industry Training Council (RITC) to galvanise industry ownership of the strategy to support the SRA's vision for "a bigger, better, safer railway".

The sectoral dimension is also crucial

457. The recently announced proposals for the creation of SSCs outlined the importance of their role. Any new accountability arrangements must ensure that the sectoral element is used effectively and is fully represented. Box 15 gives an example.

All these levels must be linked together, and planning cycles co-ordinated

458. Over time, the planning cycles of all the organisations involved could be synchronised, leading to better strategic and operational co-ordination – and improved results on the ground.

The importance of excellent labour market intelligence, used effectively

Developing a system for collecting LMI

459. The DfES Skills and Economic Intelligence Working Group (SEIWG) brings together all the key agencies involved in the collection and analysis of skills and economic intelligence at national, regional and local level. This group has established principles on how the agencies should work together and has developed a framework to improve the coherence of the overall system. Challenges still remain in the effective specification, collation and subsequent use of information. These challenges should not be underestimated and will require co-operation and co-ordination between national, regional, sectoral and local agencies.

460. The ability to use information effectively is as important as the quality of the information itself. LMI should be accessible to everyone who wishes to use it, including employers, individuals, providers, guidance staff and so on, although different levels of access may be appropriate. In addition to developing more user-friendly products, it is important to help staff at all levels develop a better understanding of LMI and how to use it. This will also inform demand for continuous improvement in information.

461. In order to establish good arrangements for the collection and dissemination of useful and timely LMI, a strategic approach covering all aspects of LMI needs to be developed. This could best be operated through the accountability framework proposed earlier in this chapter.

462. The integration of the role of the RDAs and the local LSCs, along with the SSCs, is critical to the successful development of LMI arrangements. Initiatives already in place, such as the observatories established by many RDAs, and the FRESAs being established by all RDAs, should form part of the overall strategy. SEIWG could act as a specialist national advisory group.

Putting in place a more flexible and responsive qualifications system

463. The achievements of the QCA in using a regulatory framework to lend credibility to vocational qualifications have been significant. In the context of the proposed demand-led WfD system, this report seeks to build on that success and to facilitate employer involvement in the qualifications process through the new SSCs and DTI.

The approval process for National Occupational Standards needs reform

464. National Occupational Standards (NOSs) form the basis for National Vocational Qualifications (NVQs) and inform all other vocational qualifications in the national framework. NOSs need to be approved by the Projects and Standards Approval Group (PSAG), a joint executive group of the QCA and its counterparts in the devolved administrations. The Hillier Review examined the process governing the development and approval of NOSs and has just reported. It concluded that the approval process is slow, insufficiently responsive to the needs of employers, and lacking in strategic approach. Many of the difficulties with this process were rooted in the weaknesses of the former NTO network. The new SSCs will need to fulfil their role efficiently if the whole system is to function smoothly. However, it remains the case that the QCA/PSAG process needs to be simpler, faster and more flexible.

465. In line with the Hillier Review it is recommended that the role and make-up of PSAG should be refocused and repositioned. Representation on the group is currently rather limited and needs to be widened so that all relevant stakeholders take part in approving NOSs.

466. This would increase awareness of the role of the standards beyond informing NVQs, for example in setting competencies in an industry or contributing to vocationally related courses in both HE and schools.

467. The stakeholders involved in the reformed board should include representatives from:

- the SSCs;
- the LSC;
- the ALI;
- HE; and
- the under-19 education sector.

468. The QCA should ensure that it has clear arrangements in place to work in partnership with the LSC, the SSCs and the SSDA on the standards development process. These arrangements should be flexible enough to enable the roles and responsibilities of the partners to change and evolve over a period of time.

469. The QCA could then take a more strategic approach to the development of NOSs in the longer term. The new grouping could consider ways in which to approve and fund SSC plans for standards development over a set period (e.g. three years) rather than having to approve each individual sub-project, in order to give the SSC greater freedom and flexibility in developing standards to respond to demand. Equally, existing straightforward arrangements for updating NOSs should be encouraged.

The process for accrediting vocational qualifications needs to be swifter to make the system more responsive

470. Once NOSs have been approved it is the job of the awarding body to develop qualifications. The QCA then accredits each qualification and brings it into the framework, with the aim of establishing a coherent and transparent whole. The QCA has faced a mammoth task with up to 200 awarding bodies facing quality inspection for the first time and often not meeting the required standards. This has resulted in an accreditation process that is considered to be too slow. The impact of a slow process is that changes in the world of work are not reflected in the qualifications system on a timely basis.

471. Initially, the accreditation process should be reviewed, with the intention of making it faster and more responsive, building upon changes already undertaken. Increasingly, approved awarding bodies could be given a 'licence' to develop and accredit qualifications themselves, subject to inspection by the QCA. This approach would be particularly advantageous in fast-moving sectors such as ICT and could begin on a sector-by-sector basis.

It should be easier for private and 'vendor' qualifications to be mapped onto the national qualifications framework

472. Many qualifications currently lie outside the National Qualifications Framework. These are typically qualifications offered by private providers, or learning developed privately or by colleges responding to employer demand. This includes a number of 'vendor' qualifications, which are popular with employers for recruitment. Microsoft IT qualifications are an example of this. Lack of public funding for these types of provision can leave individuals unable to obtain the qualifications they need for certain types of employment.

473. Courses leading to qualifications of this kind could not draw down public funding under the FEFC system. This has changed under the LSC, which may fund the provision of courses and training, but can only make payments towards the fees and charges of awarding bodies if the qualification is accredited within the QCA's National Qualifications Framework. If these qualifications were mapped onto NOSs and vocational qualifications within the National Qualifications Framework, then candidate registration, examination and certification costs could be made eligible for public funding.

474. Furthermore, in some cases, mapping of private qualifications onto the National Qualifications Framework would ensure quality and give an individual national recognition for achievement.

475. It is already possible for 'vendor' qualifications to be mapped onto the National Qualifications Framework and work has begun on a sectoral basis. More work needs to be done in this vein, with a view to making the process more transparent and accessible, while maintaining the quality and rigour explicit in QCA accreditation. This could be taken forward by the QCA, the LSC and DfES working with the SSCs, employers and private training providers. A starting point could be to identify those sectors in which there is a clear mismatch between public provision of nationally recognised qualifications and user demand for vendor alternatives. This would best be achieved by piloting in selected sectors, where the SSCs should take the lead.

Box 16: The LSC E-Skills Project

The LSC, working alongside other public agencies, leading IT companies such as Microsoft UK, and major employers, is taking the lead in this pilot project, which seeks to explore how ICT qualifications can be made to meet the needs of employers and individuals.

Why?

Take-up and achievement of poorly-rated national ICT qualifications (NVQs/SVQs) are low, while the high cost of more popular vendor qualifications also restricts take-up. Courses leading to vendor qualifications could not be publicly funded under the FEFC system. This has changed under the LSC, which may fund the provision of any courses and training, but can only make payments towards the fees and charges of awarding bodies if the qualification is accredited within QCA's National Qualifications Framework. This project hopes to establish what IT training the LSC might usefully support.

How?

Four local LSCs will commit to working with 60+ employees who have recently secured 'specialist' qualifications (half with NVQ and half with vendors) and a further 60+ who have secured 'user' qualifications (similar combination). The pilot will bring each group of employees' skills up to the level of the qualification they did **not** take. It will then assess the relationship between these qualifications and employers' perceived real needs. This pilot, with approximately 480 employees in four areas, will inform policy and practical changes to funding and delivering IT training nationally.

Outcomes?

The project partners will consider whether the pilot supports moves to:

- identify the common elements (core knowledge and understanding) required for both NVQs and existing vendor qualifications;
- assign modular values to these and map them across qualifications;
- deliver these across a range of providers, with LSC support; and
- revisit both sets of qualifications with a view to integrating them.

Unitisation and the credit-based system

476. Unit- and credit-based qualifications systems can offer flexibility and responsiveness, allowing individuals to build up blocks of learning with different content and of different lengths and sizes in order to obtain a full qualification. The UK already has a qualifications system which is increasingly unit-based and should be fully unitised in England by 2004/05. Scotland, Wales and Northern Ireland are currently looking at developing a credit basis for their qualifications systems.

477. While introducing a credit-based system in England would be complex and lengthy and its potential advantages remain to be substantiated, it is still an option worth considering for the future. It would require the development of detailed rules of combination and agreement on how credits should be assigned to different, and new, parts of qualifications. DfES, the QCA, DTI and the SSDA may wish to monitor the impact of a credit-based system in other parts of the UK.

9. WFD: TAKING IT FORWARD

478. This report proposes the principles by which future WfD policy should be formulated. Alongside these, the report suggests a variety of different options for how these policies could be put into practice and some specific policy changes.

479. This publication is not intended to mark the end of the PIU project on WfD. It represents the completion of the first stage, setting out the possible approaches the Government could take to encourage WfD. In the coming months, the PIU will consult widely within Government and beyond on the merits of specific proposals. The Pre-Budget Report and Budget Report will take forward the Chancellor's Budget commitment to look at options for encouraging WfD. Over the course of the next few months, the PIU will work with departmental colleagues in HMT, DfES, DTI and DWP to ensure that WfD is fully considered in the 2002 Spending Review.

480. The PIU will also feed its further work into the LSC's national strategy for WfD, which the LSC is charged to produce by March. In doing so, the team will work closely with the national LSC. This will ensure that the future vision set out in this report informs the work of the agency with a responsibility for WfD both nationally and locally.

481. The PIU will publish a second report in July 2002 setting out, in the light of the 2002 Spending Review, the details of how the Government's policy will be taken forward and on what timescale.

ANNEX 1: THE ROLE OF THE PERFORMANCE AND INNOVATION UNIT

The creation of the Performance and Innovation Unit (PIU) was announced by the Prime Minister on 28 July 1998 as part of changes following a review of the effectiveness of the centre of government by the Cabinet Secretary, Sir Richard Wilson. The PIU's aim is to improve the capacity of government to address strategic, cross-cutting issues and promote innovation in the development of policy and in the delivery of the Government's objectives. The PIU is part of the drive for better, more joined-up government. It acts as a resource for the whole of government, tackling issues that cross public sector institutional boundaries on a project basis.

The Unit's Director is Geoff Mulgan and it reports directly to the Prime Minister through Sir Richard Wilson. A small central team helps to identify new projects, and manages the Unit's work. Work on projects is carried out by small teams assembled from both inside and outside government. About half of the current project team staff are drawn from outside Whitehall, including from the private sector, think tanks, NGOs, academia and local government.

Geoff Mulgan has also recently been appointed to lead the Forward Strategy Unit, which will do blue skies policy thinking for the Prime Minister and undertake strategy projects. It will be made up of a small number of experienced figures, drawn mainly from outside the Civil Service, and will work closely with the PIU.

Comprehensive information about other PIU projects can be found on the PIU's website at www.cabinet-office.gov.uk/innovation.

ANNEX 2: THE PROJECT TEAM, SPONSOR MINISTER, ADVISORY GROUP AND ACADEMIC PANEL

The Team

- Lee Cowles – seconded from Ford
- Sarah Fitzpatrick – seconded from the Social Market Foundation
- Toby Greany – seconded part time from the Campaign for Learning
- Louise Horner – seconded from the Local Government Association
- Andrea Lee – from the PIU central economics team
- Audrey MacDougall – seconded from KPMG
- Claudine Menashe – seconded from the Department for Education and Skills
- Phil Samuels – seconded part time from the Department for Education and Skills
- Carol Sweetenham (Team Leader) – seconded from the Department for Transport, Local Government and the Regions
- Shane Tomlinson – from the PIU central economics team
- Kristin Wolff – seconded from Worksystems Inc., USA

The following people provided administrative and research support:

- Dominic Cookson – from the PIU central team
- Stephen Hale – from the PIU central team
- Robert Parikh – intern under Ethnic Minorities Summer Development Programme
- Roopak Radia – from the PIU central team
- Mia Rosenblatt – from the PIU central team
- Iain Tomlinson – from the PIU central team

The Sponsor Minister

All PIU project teams' work is overseen by a sponsor Minister with an interest in the subject area. The sponsor Minister for this project was John Healey MP, Minister for Adult Skills at the Department for Education and Skills.

The Advisory Group

The team was greatly assisted by being able to draw on the experience and advice of its Advisory Group. The team benefited from an extensive process of consultation and review with the Advisory Group throughout the project. The group, chaired by Mike Kinski, Transaction Director, Principal Finance Group, Nomura, comprised:

- Stephen Aldridge – Chief Economist, PIU
- Sarah Anderson – Council for Excellence in Management and Leadership
- Geoff Armstrong – Chartered Institute for Personnel Development
- Jo-Anne Daniels – HM Treasury (Nick Holgate until May 2001)
- Chris Humphries – City & Guilds
- Pat Jackson – Department of Trade and Industry (David Evans until May 2001)

- Paul Johnson – Department for Education and Skills
- John Lloyd – AEEU
- Geoff Mulgan – Director of the PIU and the Forward Strategy Unit
- Susan Pember – Adult Basic Skills Strategy Unit, Department for Education and Skills
- Ken Poulter – Small Business Service
- Michael Stark – Learning and Skills Council
- Nick Stuart – Department for Education and Skills
- John Walker – Ford Europe

The Academic Panel

In addition, a panel of academics and specialists in the field of Workforce Development provided invaluable support, insight and guidance to the team.

- Professor David Ashton – Centre for Labour Market Studies, University of Leicester
- Professor Mike Campbell – Policy Research Institute, Leeds Metropolitan University
- Professor Frank Coffield – University of Newcastle
- Mark Corney – MC Consultancy
- Lorraine Dearden – Institute of Fiscal Studies
- Professor Francis Green – University of Kent
- Paul Johnson – Department for Education and Skills
- Dr Ewart Keep – Deputy Director, SKOPE, University of Warwick
- Professor Steve Machin – University College London
- Geoff Mason – National Institute for Economic and Social Research
- Professor Stephen McNair – School of Educational Studies, University of Surrey
- David Robertson – Public Policy and Education, Liverpool John Moores University

ANNEX 3: DEFINITIONS

In this section the meaning behind a range of words and concepts is explored. These are terms commonly used in relation to workforce development (WfD) which are often open to different interpretations. It is helpful to establish a shared understanding of these terms as a basis for the PIU report.

Training

'Training' is often used mistakenly as a synonym for 'development'. Training suggests being instructed by someone in a formally assessable way. Development is wider: it can take place both in practising an activity and in being instructed in how to do it.

Education

Like training, 'education' has connotations of formal and directed learning. It is therefore not interchangeable with 'development'. It is also usually associated – if unfairly – with a very traditional classroom and teacher format and with compulsory schooling, rather than with different forms of learning more generally. 'Education' is used most frequently in the context of WfD with regard to 'Further Education' and 'Adult Education'.

Lifelong learning

> *"Lifelong learning means the continuous development of the skills, knowledge and understanding that are essential for employability and fulfilment."*[1]

WfD is one example of lifelong learning. Lifelong learning encompasses the formal and informal learning that people undertake as part of their working lives, as well as skills and knowledge they acquire in other contexts, which usefully feed into their working lives. It also suggests the capacity to learn: an ongoing willingness to acquire and develop skills and knowledge for work.

Formal and informal learning

Formal learning is defined in *Frameworks for effective work-related learning*[2] as:

> *"Formal: with a prescribed curriculum and externally-specified outcomes; generally comprising organised events or learning packages; often resulting in a qualification or the award of a credit."*

This definition offers us an easy way to identify formal learning and picks out its main characteristic – it is easily recordable and assessable.

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[1] *The Learning Age*, DfEE Green Paper, 1998.

[2] *Frameworks for effective work-related learning*, Project report, University of Cambridge Programme for Industry, 2000.

The simplest way to identify informal learning is with reference to the lack of any of these elements; the absence of a curriculum, for instance, or of a qualification. Because informal learning lacks the characteristics that make formal learning easily identifiable, its existence, and the benefits it brings, can be ignored.

Skills

Following the National Skills Task Force (NSTF), we distinguish three categories of skills:[3]

> *"Generic skills: the transferable skills that can be used across occupational groups. These include what have already been defined as Key Skills – communication, application of numbers, problem solving, team working, IT and improving own learning and performance... generic skills also covers reasoning skills, work process management skills, and personal values and attitudes such as motivation, discipline, judgement, leadership and initiative."*

> *"By vocational skills we mean the specific 'technical' skills needed to work within an occupation or occupational group. They... will often be those capabilities described within Occupational Standards developed and published by National Training Organisations. Some vocational skills... may also be transferable across occupations."*

> *"In the provision of training, a number of job specific skills may also be included. These might include local functional skills (e.g. operating specific pieces of equipment) or employer wide skills (e.g. in-company quality standards or specific working methodologies)."*

E-learning

E-learning refers to one of, or a combination of, the following training approaches:

- self-directed web surfing for some specific purpose;
- computer-based or web-based Training (CBT or WBT);
- facilitated Distance Learning – training supported remotely through cable television, telephone, video, web, or some combination;
- 'Knowledge Management' – capturing personal and organisational knowledge as it is acquired and making it easy to access as needed;
- Learning and Learning Content Management Systems – systems that offer firms performance support; and
- Human Capital Development Management (HCDM) – HCDM systems enable firms to link business objectives to training needs and content.

Workforce

The 'workforce' includes people working in the private, public and voluntary sectors. It also includes those who are currently working and those who are close to the workforce – either actively seeking work or keen to return to work. This definition includes young people of 16 plus ranging to older workers up to the generally accepted age of retirement. It does not simply refer to permanent, full time workers but also to those working part time, at home, for agencies or on fixed-term contracts. We have considered how workforce development might impact particularly on ethnic minorities, older people, disabled people and women.

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[3] These are the three general categories identified in the First Report which constitute their remit. The detailed typology of skills in the Final Report (basic, generic, mathematics, intermediate level, specialist information and communications technology, major adult) refer to skills deficiencies and not to overall types of skills.

High performance organisation

Definitions of the high performance organisation vary. However, high performance organisations are generally characterised by high trust, high employee discretion, high wage, high commitment and high skill. They often consist of the following specific components:

- leadership and vision, to create sense of momentum;
- decentralised, devolved decision-making, made by those closest to the customer;
- innovation and quality;
- focus on customers and continuous improvement;
- flatter organisational structures;
- self-management and team working; and
- people management processes, e.g. training aligned to organisational strategy.[4]

The learning organisation

Coined by Peter Senge in *The Fifth Discipline*,[5] 'the learning organisation' refers to a decentralised organisational model that seeks to acquire knowledge by supporting the development of human capital, its application and further growth. The model relies heavily on an environment that values teamwork, engages in formal and informal learning, and captures and shares information and experience among employees, and encourages innovation.

"A learning organisation is a group of people who are continually enhancing their capabilities to create what they want to create. It's that simple."
Peter Senge

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[4] *High performance working is for everyone*, ITFDO/ILO 2000.

[5] P. Senge, *The Fifth Discipline*, Random House 1990.

ANNEX 4: METHODOLOGY

The PIU undertook its work in five phases:

- planning and scoping the project, including identifying key stakeholders;
- fact-finding based around eight workstreams;
- production of an analysis paper drawing together findings to extrapolate strengths and weaknesses in the current system;
- developing a vision for a better future; and
- formulating policy options and recommendations to Government for the future of WfD.

1. Planning and scoping the project

The PIU received a remit from the Prime Minister in November 2000 to undertake a project on the extent, nature and main causes of underinvestment in workforce development. A team was assembled in March/April 2001 (see Annex 2 for details). It:

- produced a project plan;
- identified key stakeholders; and
- set up an Advisory Group and an Academic Panel for consultation and guidance (Annex 2).

The team explored the meaning of workforce development and produced a 'virtuous spiral' as a model for the stages involved in achieving effective development (see Chapter 5 of main report) which was used to identify the eight key policy areas forming the basis of the analysis.

2. Fact-finding based around eight workstreams

The eight workstreams, based on key policy areas identified in phase one, were:

- *Behaviour and motivation:* what makes people keen to learn? What attitudes stand in their way? What are the attitudes of employers? Is there a cultural bias against learning and development? Or lack of evidence for the benefits?
- *Qualifications and quality:* does the qualifications system provide a helpful framework for individuals to progress through? Is it sufficiently transparent for individuals and employers? Do qualifications deliver what employers want? Are formal qualifications necessarily the right answer? To what extent should non-formal learning be recognised and promoted more clearly?
- *Basic skills and access:* What is now provided for basic skills and what lessons can be learnt from it for development more generally? What barriers stand in the way of access to the training system, especially for those with low skills? Is there a case for focusing in part on those marginal to the workforce who, with some development, could become fully participating members (excluding those who are so disadvantaged that they stand little or no chance of entering/re-entering the workforce)?

- *The role and concerns of business:* what do employers currently do and how does the system help them do it? Is poaching a genuine concern? What are the particular issues of small business? Is there a need to look at individually tailored solutions, recognising the diversity of business, the rapidly changing structure of sectors and the impact of mobile investors? Can businesses be encouraged to make development more central to their planning and HR processes (the suggested tax credit may help)? What is the right balance of regulation and encouragement? What are the views of mobile investors and inward investors? Should companies be required to publish their workforce development investment and outcomes in their annual reports?
- *Funding and incentives:* who benefits from workforce development – individuals, firms, industries, the economy, society at large? Do the funding arrangements in the current system give enough power to customers? What incentives, financial and other, might Government deploy to encourage workforce development? What is the appropriate balance of reward, incentive and regulation? Should poor performance be penalised in some way over and above the disciplines imposed by the market? Are there competing incentives? Is it possible for incentives and schemes to be simplified, rationalised or abolished, thus avoiding 'initiative-itis'?
- *Information, advice and guidance (IAG):* what are the current structures for giving IAG to individuals and employers, particularly to small businesses and adults over 19? Who are the intermediaries? Are they and the products they market transparent? Is the advice proactive enough? Is there a role for impartial advice rather than for those marketing their own services (including Government initiatives)? Is there enough capacity for planning ahead to meet skills shortages and sharing that information? This needs to be considered in the context of shortages in some specialist and technical skills as well as the broader canvas of lower and intermediate skills.
- *Networks, groups and role models:* the role of mentoring, for individuals and employers. How can existing groupings be made to work better, promoting co-operation rather than poaching? How can best practice be promoted and role models publicised?
- *Flexibilities in existing structures:* what are the weaknesses in existing structures? Are they responsive enough to customer demand? How could they be made so? There is a very important set of questions around the role of E-learning: are expectations realistic?

These workstreams, led by individual team members, provided a focus for gathering information and managing relevant stakeholders. The research was carried out in a variety of ways:

- Each member of the team had extensive discussions with stakeholders and experts within government departments and related bodies, drawing on their experience, knowledge and existing research. This was supplemented by visits to regional and local partners, providers and employers to explore the issues and best practice at grass-roots level. A list of people and organisations consulted is included in Annex 5.
- The PIU carried out its own analysis of the data relating to the volume, distribution, cost and returns to workforce development.
- MORI and other consultants were commissioned to carry out a series of focus groups which were conducted with individuals, small businesses and providers.

- Support, advice and expertise were provided by regular consultations with the team's Advisory Group and Academic Panel.
- New research was commissioned:
  - Literature Review – Ewart Keep and Sandy Coleman
  - The Economic Benefits of Training – Steve Machin and Anna Vignoles
  - Lessons Learnt from Overseas Experience – David Ashton and Johnny Sung
  - Motivation for Workforce Development: The Role of National Culture – David Guest

These studies were presented in a series of seminars, where the issues could be further discussed with the authors. They are available on the PIU website at: http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml

3. Producing an analysis paper

This interim report was produced in order to pull together the findings from the eight workstreams and to establish the strengths and weaknesses of the current system. An examination of the respective roles of individuals, employers and government underpinned the structure of the paper.

The paper was developed in consultation with a range of key stakeholders, including the advisory and academic groups, whose feedback was invited on various occasions. An Executive Summary was published on the PIU website in July 2001 and followed by the full analysis report in early September.

Much of the work involved in the first three phases of the project and in producing the analysis paper is reflected in Chapters 3 and 4 of this report.

4. Developing a vision for a better future

This phase of the project ran alongside much of the other investigative activity and worked to inform the development of our thinking throughout the analysis stage. A range of events were arranged to explore the wider context of the current system and to allow for more creative thinking and innovative solutions. These included:

- a seminar hosted by the Industrial Society to look at the contribution of Workforce Development to Productivity and Social Inclusion;
- a workshop on Motivation to Learn and Culture in the UK;
- a session with the PIU's Strategic Futures group on Workforce Development and the future of the UK economy;
- a session in the DTI Future Focus lab, exploring different scenarios of how society and the economy might develop and what the implications might be for Workforce Development Strategy; and
- an Innovation Workshop, bringing together alternative perspectives on the issues and possible solutions.

Ultimately, this work, in conjunction with the analysis, brought the team to its vision of a demand-led system outlined in Chapter 5.

5. Formulating policy conclusions

The conclusions reached in the analysis paper were used to outline a series of objectives. These were also informed by the vision of a demand-led workforce development system, as described above. In this way, it was ensured that policy conclusions were both firmly rooted in the evidence and would work together to achieve a common, long term goal.

Three primary objectives were identified and used as a starting point:

- increasing demand, especially amongst small firms and low skilled individuals;
- improving the capacity and responsiveness of the supply side; and
- providing the right government framework.

Areas for policy development were drawn up and evaluated in consultation with key stakeholders and against an agreed set of criteria.

Conclusions for policy development were assessed against the following criteria:

- Is it already happening?
- How important is it to our overall strategy?
- Is it cost effective?
- Can or should government intervene?
- Is it deliverable?
- What impact will it have on behaviour?
- How do stakeholders feel about it?
- Are there any unintended consequences?
- How simple is it?

The outcomes of this strand are reflected in Chapters 6 to 10 of this report.

ANNEX 5: ORGANISATIONS AND PEOPLE CONSULTED

During the analysis phase of the project, the team consulted widely, talking to individuals in many organisations as well as commissioning focus groups of individuals and employers. The intent of the consultation phase was to understand the opinions of different groups of stakeholders and the team followed up references to others to be as comprehensive as possible. The focus groups, whilst not extensive enough to provide entirely new research data, acted as a useful 'reality-check' to make sure that the team's ideas were grounded in the evidence.

Individuals consulted:

First Name	Surname	Organisation/Department
Kanta	Ghudial	Advice and Guidance Partnership
Julian	Saunders	Advice and Guidance Partnership
Nicky	Perry	Adult Learning Inspectorate
John	Lloyd	Amalgamated Engineering & Electrical Union
Simon	Gallagher	All-Sector NTOs
John	Brennan	Association of Colleges
Judith	Norrington	Association of Colleges
Hugh	Pitman	Association of Learning Providers
Wendy	Brown	Barclays Bank
Laura	Macmillan	Basic Skills Agency
Michael	Hastings	BBC
Margaret	Belle	Belle Associates
Catherine	Fogg	British Chambers of Commerce
Stephanie	James	British Chambers of Commerce
Shan	Morgan	British Embassy, Paris
Bill	Lucas	Campaign for Learning
Liz	Davies	Central Government NTO
Martin	Henry	Centre for Enterprise
Geoff	Armstrong	Chartered Institute for Personnel Development
Martyn	Sloman	Chartered Institute for Personnel Development
John	Stevens	Chartered Institute for Personnel Development
Jeremy	Crump	Cisco Systems/eLearning
Jane	Knight	Cisco Systems/eLearning

First Name	Surname	Organisation/Department
Bob	Mozley	Citizen Connect Ltd
Sue	Fifer	City & Guilds
Chris	Humphries	City & Guilds
Margaret	Murray	Confederation of British Industry
Liz	Amos	Council for Excellence in Management and Leadership
Sarah	Anderson	Council for Excellence in Management and Leadership
Alan	McLarkey	Croydon Council
Nick	Kalisperas	CSSA
Beatrice	Rogers	CSSA
David	Guest	University of London
Tony	Williamson	DCMS (Department for Culture, Media and Sport)
Marcial	Boo	DfES (Department for Education and Skills)
Bruce	Burne	DfES
Graham	Cheetam	DfES
Rosemary	Childs	DfES
Anthony	Clarke	DfES
Gary	Clarkson	DfES
Jon	Coles	DfES
Oliver	Couch	DfES
Alan	Davies	DfES
John	Doherty	DfES
Tim	Down	DfES
Eric	Galvin	DfES
Brian	Glickman	DfES
Stuart	Gordon	DfES
Derek	Grover	DfES
Ian	Hanks	DfES
Paul	Harper	DfES
Tina	Haslem	DfES
Paul	Johnson	DfES
Tony	Kearsey	DfES
Peter	Lauener	DfES
Sara	Marshall	DfES
John	McCann	DfES
Millar	McDonald	DfES
Kate	McGimpsey	DfES
Sam	Mellor	DfES
Susan	Pember	DfES

First Name	Surname	Organisation/Department
Clare	Pierce	DfES
Judith	Roe	DfES
Yvonne	Smith	DfES
Carol	Stanfield	DfES
Nick	Stuart	DfES
John	Temple	DfES
Hugh	Tollyfield	DfES
Paula	Townsend	DfES
Roy	Vernon	DfES
Anne	Weinstock	DfES
Roger	Weller	DfES
Cath	Witherington	DfES
Vivienne	Stone	Disability Rights Commission
Jeremy	Allen	DTI (Department of Trade and Industry)
David	Bacon	DTI
Michael	Keoghan	DTI
Peter	Christie	DTI
Pat	Jackson	DTI
Michael	Keoghan	DTI
Chris	Mee	DTI
Jim	Mitchell	DTI
Charles	Phillips	DTI
Michael	Ridley	DTI
Ken	Warwick	DTI
Angus	Gray	DWP (Department for Work and Pensions)
Elaine	Hendry	DWP
Andy	Howell	DWP
Victoria	Johns	DWP
Jaee	Samant	DWP
Cay	Stratton	DWP
Judith	Christian-Carter	Effective Learning Solutions Ltd
Leigh	Lewis	Employment Service/Jobcentre Plus
Jacci	McCaw	Employment Service/Jobcentre Plus
Richard	Shearman	Engineering Council
Derek	Carr	National Training Organisation for Engineering Manufacture
Michael	Sanderson	National Training Organisation for Engineering Manufacture

First Name	Surname	Organisation/Department
Anne	Madden	Equal Opportunities Commission
Ian	Handford	Federation of Small Businesses
Rob	Brittle	Ford Motor Company
Sean	McIlveen	Ford Motor Company
John	Walker	Ford Europe
Stan	Mendham	Forum of Private Businesses
Leigh	Henderson	Guidance Council
Jo-Anne	Daniels	HMT (Her Majesty's Treasury)
Melanie	Dawes	HMT
John	Kingman	HMT
James	Richardson	HMT
Simon	Ridley	HMT
Jeremy	Hunt	Hotcourses
Ron	Griffiths	HSE
Ruth	Spellman	Investors in People
Monica	Seeley	Imperial College
Tony	Goulbourn	Independent Consultant
Graham	Hoyle	Independent Consultant
John	Lambert	Independent Consultant
Alex	Pratt	Independent Consultant
Jill	Robson	Independent Consultant
Simon	Wilson	Independent Consultant
James	Crabtree	Industrial Society
Andy	Westwood	Industrial Society
Sam	Mitha	Inland Revenue
Jim	Norton	Institute of Directors
Richard	Wilson	Institute of Directors
Alastair	Morgan	Invest UK
Nick	Burkitt	IPPR (Institute for Public Policy Research)
Nick	Hardy	IPPR
Ian	Kearns	IPPR
Peter	Robinson	IPPR
Beatrice	Stern	IPPR
Robert	Bolton	KPMG
Nick	Brown	KPMG
Juliet	Osborne	KPMG
Grant	Ritchie	KPMG
Maria	Sillanpaa	KPMG

First Name	Surname	Organisation/Department
Wendy	Forest	Lewisham FE College
Bernard	O'Driscoll	Lloyds TSB
Tony	Winterbottom	London Development Authority
Bharti	Patel	Low Pay Unit
Alan	Curless	LSC (Learning and Skills Council)
Geoff	Daniels	LSC
Mike	Fenton	LSC
Geoff	Hall	LSC
Chris	Roberts	LSC
Michael	Stark	LSC
Maggie	Greenwood	LSDA (Learning and Skills Development Agency)
Chris	Hughes	LSDA
Caroline	Mager	LSDA
Paul	Stanley	Ministry of Defence
John	Gray	Newark and Sherwood College
Liz	Laycock	Newham College of Further Education
Bernadette	McAnespie	Newham College of Further Education
Alan	Tuckett	NIACE/LCS Adult Learning Committee
John	Bushnell	National Information and Learning Technologies Association
Deirdre	McGill	Northern Ireland Assembly
Tom	Scott	Northern Ireland Assembly
Fran	Hulbert	Northwest RDA
Adrian	Anderson	NTO – NC (National Training Organisation National Council)
Tom	Bewick	NTO – NC
Andy	Powell	NTO – NC
John	Goldthorpe	Nuffield College, Oxford
Mike	Collier	One North East Regional Development Agency
Bob	Little	Open Learning Journal
Mark	Gray	Oxford University/CPD Centre
Peter	Honey	Peter Honey Publications Ltd
Beverley	Evans	QCA (Qualifications and Curriculum Authority)
David	Hargreaves	QCA
Keith	Weller	QCA
Lord	Haskins	RIU
Bruce	Armitage	Scottish Enterprise
Stephanie	Young	Scottish Enterprise Glasgow

First Name	Surname	Organisation/Department
Alistair	Aitken	Scottish Executive
Simon	Kyte	Skills Insight
Dinah	Caine	Skillset
Kate	O'Connor	Skillset
Wendy	Humphries	SBS (Small Business Service)
Ian	Kinder	SBS
Kenneth	Poulter	SBS
Mike	Ward	SBS
John	Parsonage	SEEDA
Kathy	Slack	SEEDA
Tony	Robinson	Small Firm Enterprise Development Initiative
Helen	Gorner	South Yorkshire LSC
Maggie	Hoyland	South Yorkshire LSC
Marilyn	Roberts	South Yorkshire LSC
Gary	Gilligan	Sun U EMEA/eLearning
Gordon	Edge	The Generics Group
Clive	Morton	The Morton Partnership
William	Benn	the-shelf.com
Eny	Osung	the-shelf.com
Bert	Clough	TUC (Trades Union Congress)
Phil	Gowan	TUC
John	Monks	TUC
Frances	O'Grady	TUC
Liz	Smith	TUC
Tony	Chandler	Unison
Mary	Benwell	Ufi Ltd
Gareth	Dent	Ufi Ltd
Ann	Limb	Ufi Ltd
Pablo	Lloyd	Ufi Ltd
Mark	Smith	Ufi Ltd
Sue	Roocroft	UK Online
David	Storey	Warwick University
Richard	Keveran	Welsh Assembly
Barbara	Morris	Welsh Assembly
Sue	Lewis	Women's Unit
Kylie	Stephens	Women's Unit

The team liaised with the following reviews:

BCC Chamber Training Forum
CBI/TUC Working Group on Training for Productivity and Employability
Davies Review of Enterprise and the Economy in Education
DfES Workforce Development Planning Group
DTI Skills and Education Group
Hillier Review of the UK National Occupational Standards Programme
Kingsmill Review of Women's Pay and Employment
NTO Network Review Team

And worked closely with...

The Campaign for Learning
The Industrial Society

Focus groups were conducted involving the following:

Group	**Location**	**Carried out by**
Public sector employers	London	PIU
Small businesses (<10 employees)	Nottingham	MORI
Small businesses (10–50 employees)	Nottingham	MORI
Individuals under 35	Nottingham	MORI
Individuals over 35	Nottingham	MORI
Small businesses (<10 employees)	Southampton	Southampton Small Business Centre
Employers and institutions	Doncaster	T Goulbourn, for PIU

And members of the team carried out visits to:

Ford EDAP
Construction Industry Training Board
Birdseye, Lowestoft
Newham College of Further Education
Lewisham College
Worcester College of Technology
Lloyds TSB Corporate University
One-Northeast
County Durham LSC
East London LSC
Hereford and Worcester LSC
Tyne and Wear LSC
The Arts Factory (Wales)
University of Glamorgan
UK online centres, Sheffield, East London, London, Newark
Newark and Sherwood College
Cisco Systems
KPMG
York, Manchester, Central London and Hereford & Worcester Business Links
South West Durham Group Training Association
Seafish Group Training Association
Southampton Enterprise Agency
Welsh Assembly
Northern Ireland Assembly
Scottish Executive

ANNEX 6: GLOSSARY

ALI	Adult Learning Inspectorate
BTEC	Business and Technology Education Council
CAT	Credit Accumulation and Transfer
CBI	Confederation of British Industry
CEDEFOP	European Centre for the Development of Vocational Training
CEML	Council for Excellence in Management and Leadership
CIPD	Chartered Institute for Personnel Development
COVE	Centre of Vocational Excellence
CSF	Childcare Support Fund
DETR	Department of the Environment, Transport and the Regions
DfES	Department for Education and Skills
DTI	Department of Trade and Industry
DWP	Department for Work and Pensions
EFQM	European Foundation for Quality Management
EMA	Educational Maintenance Allowance
ES	Employment Service (now Jobcentre Plus)
ESF	European Social Fund
ESOL	English as a Second or Other Language
EU	European Union
FE	Further Education
FEFC	Further Education Funding Council
FRESAS	Frameworks for Regional Employment and Skills Action
FSB	Federation of Small Businesses
FT	Full time
GDP	Gross Domestic Product
GO	Government Office
GTA	Group Training Association
HCDM	Human Capital Development Management
HE	Higher Education
HMT	Her Majesty's Treasury
HPW	High Performance Working
HR	Human Resources
HRM	Human Resource Management
IAG	Information, Advice and Guidance

ICT	Information and Communications Technology
IDC	International Data Corporation
IiP UK	Investors in People UK
ILA	Individual Learning Account
JSA	Jobseeker's Allowance
LFS	Labour Force Survey
LLP	Local Learning Partnerships
LMI	Labour Market Intelligence
LSC	Learning and Skills Council
MA	Modern Apprenticeship
MBA	Master of Business Administration
MORI	Market and Opinion Research International
NALS	National Adult Learning Survey
NDPB	Non-Departmental Public Body
NIACE	National Institute of Adult Continuing Education
NMW	National Minimum Wage
NOSs	National Occupational Standards
NSTF	National Skills Taskforce
NTO	National Training Organisation
NVQ	National Vocational Qualification
OECD	Organisation for Economic Cooperation and Development
OFSTED	Office for Standards in Education
OGC	Office of Government Commerce
PIU	Performance and Innovation Unit
PSA	Public Service Agreement
PSAG	Projects and Standards Approval Group
PSB	Productivity and Standards Board
QCA	Qualifications and Curriculum Authority
RDA	Regional Development Agency
RSA	Royal Society Award
SBS	Small Business Service
SEIWG	Skills and Economic Intelligence Working Group
SFTL	Small Firms Training Loan
SME	Small and Medium-sized Enterprise
SSC	Sector Skills Council
SSDA	Sector Skills Development Agency
TEC	Training and Enterprise Council
TUC	Trade Union Congress
Ufi Ltd	"University for Industry"
ULR	Union Learning Representative
US	United States
VRQs	Vocationally Related Qualifications
VFM	Value for Money
WBL	Work Based Learning
WfD	Workforce Development

ANNEX 7: BIBLIOGRAPHY

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CABINET
OFFICE

strategy unit

In Demand

Adult skills in the 21st century – part 2

A STRATEGY UNIT REPORT – NOVEMBER 2002

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FOREWORD BY THE PRIME MINISTER

Change is happening fast in every aspect of our lives – at home and in the workplace. Modern businesses know that to survive they must adapt. And to adapt, they need a flexible and skilled workforce.

Better skills mean better productivity, and higher incomes for all. A workforce with the right blend of skills helps create and sustain vibrant and successful businesses – the bedrock of national economic success.

This Government has made progress on raising standards in schools, revitalising our system of apprenticeships and increasing participation in higher education. So the workforce of the future will be more highly skilled and productive than ever before.

But the challenges we face are still immense. High drop-out rates at 16. Most shameful of all, 7 million adults lacking basic literacy and numeracy skills. Six million more lacking the skills necessary for progression. Low levels of craft and intermediate qualifications in our workforce.

We need to tackle this legacy of poor skills among adults. This is why I commissioned the Strategy Unit to develop a more strategic approach to workforce development.

The unit's first report *In Demand: Adult skills in the 21st century* (November 2001) set out proposals for a more demand-led system. It placed development of skills firmly in the context of wider business needs. It meant employers and employees have a central role in determining the nature of provision.

For too long skills development has been based on what is provided – not what is needed. I believe that for Government to deliver improvements, public services have to be rebuilt around the needs of customers.

This second report represents a comprehensive action plan for workforce development in England to 2010. Devolved administrations are taking forward complementary approaches.

The plan reflects the experience being gained from pilot programmes to test various ways of raising demand for training among companies and their employees. It also takes forward the action signalled in this year's Spending Review to tackle the legacy of low skilled adults in the workforce. It sets these in a strategic framework for the development of policy.

In the Spending Review we announced new targets for raising the level of the lowest skilled – improving the basic skills of 1.5 million by 2006. We committed to increasing the numbers of young people going on to a Modern Apprenticeship. And we are setting new long-term targets for the number achieving level 2 and vocational qualifications. These targets map out our aspirations. Together with other related targets they will lead to real improvements in the skills of our workforce.

In achieving them our emphasis is upon testing new approaches. Approaches that minimise bureaucracy while retaining safeguards and avoiding any unjustified regulatory burdens. So we are piloting innovative approaches to better joint working at a regional level. And we will review the use of the education budget for over-19s to make it more responsive to the needs of businesses and individuals.

Actions on the ground are what matters if we are to achieve the goal of a more skilled workforce. That's why I have asked the Delivery Unit to monitor closely progress on improving skills. Delivering this change will be a priority for Ministers from the key Government departments.

Government can provide the right context and funding, but it cannot act alone. Workforce development is about businesses having a clear understanding of the skills their workforce needs. It is about individuals knowing what skills they need to improve their prospects of promotion. It is about training providers responding to these demands.

We all want a more prosperous and inclusive country. That can only be achieved by a partnership of government, employers and employees.

Tony Blair

Tony Blair
Prime Minister

1. INTRODUCTION

1. For well over a century, governments, employers and trade unions have been concerned about the level of skills in the UK workforce. The UK is falling behind its competitors in terms of productivity and economic performance and has had to cope with the social consequences of a poorly educated and trained workforce. There is an increasing need for organisations and their people to innovate and manage change in a world of developing technologies, changing work patterns and global competition.

2. The Performance and Innovation Unit (PIU) – now called the Strategy Unit (SU) – was commissioned by the Prime Minister to set out proposals for a strategic framework for adult workforce development, established in consultation with key public and private sector partners, drawing together the full range of new and existing institutions and initiatives into a coherent whole.

3. Following extensive research and analysis, consultation and policy development, the first PIU report was published in November 2001. This set out the role of workforce development in raising productivity, promoting social inclusion and enabling the UK economy to innovate and manage change. It examined the current systems for workforce development and explored reasons why they were not always delivering. The report set out a vision for the future, proposing a strategy for a demand-led system for workforce development, shifting the emphasis of policy making from increasing supply to stimulating demand from employers and individuals, and meeting it with responsive provision supported by the right government framework.

4. The SU undertook a second phase of work alongside the Learning and Skills Council's (LSC's) Workforce Development Strategy (published at the same time as this document), the Spending Review and work being taken forward elsewhere in Government. The SU's work had two objectives:

- the production of a second report in the wake of the Spending Review, setting out what Government policy would be, how it would be taken forward and on what timescale; and
- clear arrangements within Government for taking policy forward and monitoring progress.

5. This document is the second part of *In Demand: Adult skills in the 21st century*. It sets workforce development in the wider context of Government policy and maps out an action plan for the development of policy up to 2010. The action plan seeks, in particular, to build on the progress which has been made in this area since the publication of the first report, including:

- the launch of a new approach – Employer Training Pilot – being tested in six areas of the country;
- the announcements in the 2002 Spending Review of new, ambitious targets on skills, including a commitment to reduce by at

least 40 per cent the number of adults in the workforce lacking level 2 qualifications by 2010; and

- the commitment in the 2002 Spending Review to conducting a review of the funding of adult learning and to testing regional pooling of budgets for workforce development.

6. To ensure that we are meeting our objectives in this area, the report offers a framework for measuring success and explains how the strategy will be taken forward and monitored.

An action plan for England

Training and skills are a devolved issue and this is an action plan for England only. It recognises, however, that certain aspects, such as sector skills and some aspects of qualifications, have a UK-wide focus. The devolved administrations have been consulted on the plan and will continue to be involved in the development of UK-wide policies. Further information on activities under way in the Devolved Administrations can be found as follows:

- The Welsh Assembly Government's *Skills and Employment Action Plan 2002* is available at www.learning.wales.gov.uk (employment topic).
- Work is ongoing by the Scottish Executive to produce a Lifelong Learning Strategy, which is expected to be published at the end of January 2003. The Scottish Parliament's Enterprise and Lifelong Learning Committee have published their final report of an inquiry into Lifelong Learning.
- The Northern Ireland Executive's Programme for Government includes in its priorities 'Investing in Education and Skills' and 'Securing a Competitive Economy'. The lead on developing workforce skills is taken by the Department for Employment and Learning (www.delni.gov.uk), working closely with the industrial development agency for the region, Invest Northern Ireland (www.investni.gov.uk).

2. THE IMPORTANCE OF WORKFORCE DEVELOPMENT

Key points

- Workforce development is vital to raising productivity, reducing social exclusion and enabling organisations to innovate and manage change.
- Poor performance in raising skills is the result of a combination of market and information failures, the existence of barriers to participation and the influence of cultural and government factors.
- Stimulating informed demand in the context of the right government framework provides a way to tackle these failures.
- The low skilled and small firms are least likely to be able to undertake workforce development activity and must be a major focus of government intervention.
- Improved management and leadership capability is an essential prerequisite to better workforce development.
- Basic skills must remain a top priority but cannot been seen in isolation from skills development up to the benchmark level 2. Level 3 skills are also important.

What is preventing the UK raising its game on skills?

What is workforce development?

"Workforce development consists of activities which increase the capacity of individuals to participate effectively in the workplace, thereby improving their productivity and employability."

In Demand, November 2001

7. Workforce development is a key factor in economic development. It is vital to raising labour productivity, improving social inclusion and fostering innovation. Higher skills:

- are an essential contribution to higher productivity, although they cannot deliver in isolation from other measures;
- help individuals to improve their position in the labour market; and
- help individuals and firms alike to innovate and adapt to the demands of a changing economy.

8. The UK lags behind other leading nations such as the USA, Germany and France in its productivity. Productivity is determined by the interaction of a range of factors, including skills, investment and organisation. UK skills underperformance makes a substantial contribution to the productivity gap with key competitor countries – according to some estimates, constituting 20 per cent of the gap with Germany.[1]

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[1] *Developing Workforce Skills: Piloting a New Approach*, HM Treasury and DfES, April 2002.

The UK Competitiveness Indicators suggest the need to improve the quality of management and leadership. And a substantial number of firms report that the ability to innovate and develop new products or services is limited by inadequate skills.

9. Over 20 per cent of adults in the UK have poor literacy and numeracy skills. And compared with France and Germany, lower proportions of the workforce have qualifications at level 2 and level 3. To some extent this is a historical problem which will lessen as improvements in the school system feed through. But it will not disappear. There will continue to be a stock of under-skilled workers, as over three-quarters of the 2010 workforce has already left full-time education.[2] Demographic and technological change will emphasise the importance of re-skilling for older workers.

10. Poor management and leadership skills are often cited as the reason for the closure of small, young businesses – 37.5 per cent close within the first three years. The International Institute for Management Development puts the efficiency of UK business leaders behind most of our main competitors (Germany, USA, Canada and France) in terms of management efficiency, as measured by the availability of senior managers and their international experience.

11. There is no single factor explaining the UK's poor performance. It results from a combination of market failures, cultural issues and government failures.

The links between skills and productivity: evidence

There is a well-established relationship between skills and productivity, supported by both theoretical and empirical research. Growth theory suggests that human capital is one of the prime determinants of labour productivity. Evidence suggests that:

- skilled workers can increase the ability of a firm to update its practices and products at the rate demanded by rapidly changing markets, making the economy more flexible and productive in the long term;
- having highly skilled workers also enables firms to gain the full rewards of new capital investment and thus increase the likelihood that investment will occur;
- differing levels of skills play an important role in international productivity performance;
- a similar picture, which exists at firm and plant level, shows that differences in physical and human capital can explain around 60 per cent of the productivity gap between domestically-owned firms and US-owned firms in the UK, and nearly all of the gap with other foreign-owned firms; and
- training is associated with greater productivity gains than wage gains, implying a significant return for employers as well as individuals.

For further details please see:
Developing Workforce Skills: Piloting a New Approach, *HM Treasury and DfES, April 2002 (www.hm-treasury.gov.uk)*

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[2] SU modelling.

Market failures

- Under-investment in training can occur when firms and organisations are unable to capture all the benefits of that investment.
- This is a particular problem for small firms, which have a limited cash flow and operate in smaller internal labour markets where there are fewer opportunities for individual progression, and staff are harder to retain over the longer term.
- Many of the benefits of workforce development, especially at the lower skilled end, accrue to the economy at large rather than to individuals or organisations – this divergence between social and private returns may result in under-investment.

Information failures

- Insufficient information or lack of access to it can make it difficult for employers and individuals to appreciate the benefits of workforce development or identify appropriate opportunities.
- Where employers seek to offset the opportunity cost of workforce development by offering lower wages to those undertaking training, individuals unaware of the potential benefits may be less willing to train.
- The low skilled, with the least experience of workforce development and its potential benefits, are least likely to demand it. Conversely, employers are more likely to invest in individuals who have already proved their ability to gain qualifications.

Barriers to participation

- Time and money are often quoted as barriers to engagement in workforce development. Low skilled, low paid individuals are likely to be particularly credit-constrained, as are small firms.

Cultural factors

- Many firms and organisations do not pursue high value-added and innovative product strategies.[3] This, along with poor management and leadership, severely limits the demand for better skills.
- Employer networks and institutions are relatively weak, reducing opportunities for sharing information and best practice in relation to higher value-added business strategies and the skills needed to deliver them.
- Motivation is key: one negative workforce development experience can have a profound effect on motivation and commitment.

Government factors

- The Government framework around workforce development is characterised by a large number of institutions and initiatives: it needs greater co-ordination and clarification of accountabilities.
- Focusing attention on intermediate targets rather than longer-term outcomes can have an adverse effect on workforce development provision.

12. The result all too often is a 'low skills equilibrium',[4] where the supply of low skilled individuals encourages employers to adopt production techniques requiring less skilled workers. This in turn reinforces the demand for low rather than high skilled workers,

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[3] *In Demand: Adult skills in the 21st century,* Performance and Innovation Unit, November 2001.

[4] "a self reinforcing network of societal and state institutions which interact to stifle the demand for improvement in skill levels... [resulting in] the majority of enterprises staffed by poorly trained managers and workers producing low quality goods and services." For further details on the low skills equilibrium please see: *In Demand: Adult skills in the 21st century,* Performance and Innovation Unit, November 2001.

compounding low added-value business strategies. Although this is an exaggerated picture of the situation, it enables an understanding of the cycle driving our limited engagement in workforce development.

13. In particular, those most likely to benefit from development – the least skilled and small firms – are often the least likely to be able to undertake it. This includes women who are concentrated in lower paid, lower skilled jobs and those who work part time. This accentuates existing inequalities and leads to a long tail of under-performance.

14. Government therefore sees a clear case for an approach which tackles these market and government failures and is centred on stimulating informed demand. Without higher demand for skills and the ability to make use of them, major improvements in skill levels and productivity are unlikely to be achieved. Within this approach, Government support should be targeted on the lowest skilled and small firms, recognising that formal approaches may not be the only route and that innovative approaches are likely to be needed.

15. A key driver of organisational performance is good management and leadership. The report of the Council for Excellence in Management and Leadership[5] provided a thorough analysis of the many factors shaping the management and leadership capability of the UK and a comprehensive set of recommendations for improvement. The government response to the Council's report[6] sets out a demanding agenda for action to tackle the UK's deficit in management and leadership skills, including a new high level Advisory Panel of business and public sector leaders and Ministers to push the agenda forward. Improved management and leadership capability is a prerequisite to better workforce development and the government response document should be read as complementary to this (SU) report.

16. Basic skills of literacy and numeracy must continue to be a top priority. But they cannot be seen in isolation from wider development of skills up to level 2 and beyond, especially in the context of a new Government target to reduce by at least 40 per cent the number of adults in the workforce who lack NVQ2 or equivalent qualification by 2010. Beyond this, specific intermediate skills at level 3 are of crucial importance to economic success and Government must ensure that, where necessary, there is sufficient flexibility in the system for these skill needs to be met.

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[5] Report of the Council for Excellence in Management and Leadership, *Managers and Leaders: Raising our Game* published May 2002.

[6] *Managers and Leaders: Raising our Game. Government Response to the Report of the Council for Excellence in Management and Leadership* (DfES, September 2002).

3. VISION AND STRATEGY

Key points

- Our vision is that in 2010 the UK will be a society where Government, employers and individuals actively engage in skills development to deliver sustainable economic success for all.
- To achieve this we need to move to a more demand-led system for workforce development.
- This can be done by raising informed demand for workforce development, improving the responsiveness of the supply side and developing the right government framework.
- Since the first report by the PIU, government has begun to lay the foundations of moving towards a more demand-led system including:
  - setting out challenging targets in the 2002 Spending Review;
  - establishing pilots to test approaches;
  - committing itself to a fundamental review of the funding of adult learning; and
  - the LSC developing its Workforce Development Strategy.
- The key Public Service Agreement (PSA) targets set in this area include:
  - *reduce by at least 40 per cent the number of adults in the workforce who lack NVQ2 or equivalent qualifications by 2010. Working towards this, 1 million adults already in the workforce to achieve level 2 between 2003 and 2006;*
  - *improve the basic skill levels of 1.5 million adults between the launch of Skills for Life in 2001 and 2007, with an interim target of 750,000 by 2004; and*
  - *at least 28 per cent of young people should start on a Modern Apprenticeship (MA) in 2004 and there will be a wider vocational target (including Modern Apprenticeships) for 2010.*
- This report sets out an action plan for taking things forward in England, showing what government will do to stimulate demand, improve supply and establish the right framework.

A more demand-led system

Our vision:

In 2010, the UK will be a society where Government, employers and individuals actively engage in skills development to deliver sustainable economic success for all.

17. The key to achieving this ambitious vision – as proposed in the first report from the PIU – lies in moving towards a more demand-led system for workforce development, which is more responsive to the needs of employers and individuals. This requires a shift in emphasis from supply-side solutions to a situation in which informed employer and individual demand plays a significant role in driving provision. The needs of individuals and employers already have some impact on the kind of provision on offer; the challenge is for the workforce development system to tap into those needs more effectively, stimulating demand and improving the capacity to respond. Demand must be derived from employer need.

What are the key drivers of demand for workforce development?

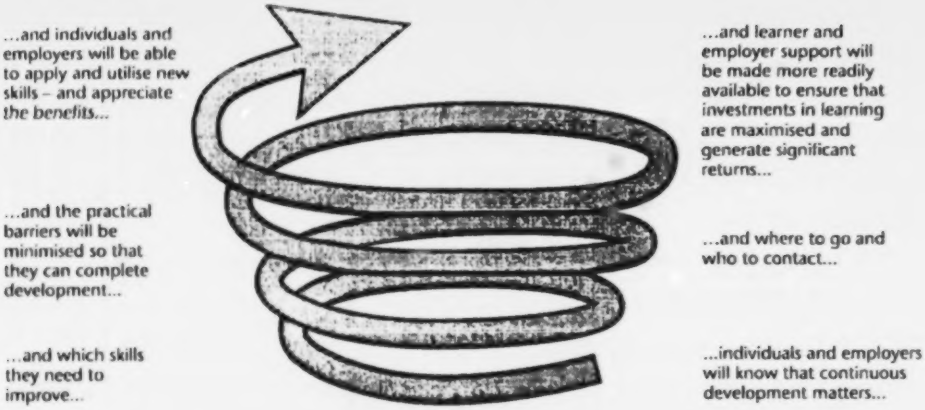
There are three main sources of demand for workforce development:

- **Employers** demand higher skills to enable them to meet business objectives more effectively. For the private sector this can mean increasing profitability, increasing efficiency of existing processes, developing new products and enabling growth into new markets. For the public and voluntary sectors, efficiency and quality of services to ensure value for money and customer satisfaction are important drivers.
- **Individuals** demand skill development for a number of reasons, which often converge. These are primarily related to economic benefit and personal fulfilment. Individual demand can be met independently or through employers and the workplace.
- **Society** and **government** demand for skills arises in cases of particular market failures or in support of a policy agenda, such as social inclusion.

18. There are significant benefits to be had from moving towards a more demand-led system for workforce development:

- funding mechanisms will be more effective at communicating employer and individual demand, leading to greater choice, local flexibility and empowerment;
- provision will be more responsive to the individual circumstances and business needs;
- choice and competition will stimulate innovation and alternative forms of provision, also allowing escape routes from poor or failing provision; and
- the government framework will need to be flexible, enabling the system to adapt to the changing demand of economic and social development.

Figure 1: The virtuous spiral of workforce development


...individuals and employers will know that continuous development matters...
...and which skills they need to improve...
...and where to go and who to contact...
...and the practical barriers will be minimised so that they can complete development...
...and learner and employer support will be made more readily available to ensure that investments in learning are maximised and generate significant returns...
...and individuals and employers will be able to apply and utilise new skills – and appreciate the benefits...

19. Creating a more demand-led system is based on three key actions:

- **Raising informed demand**: building greater and better-informed demand for development amongst employers and individuals, focusing efforts on low skilled adults and small firms.
- **Improving supply:** enabling supply to be more responsive to demand, focusing efforts on funding mechanisms which promote flexibility, raising quality, rewarding innovation and encouraging diversity of the provider market.
- **Developing the framework:** providing a flexible government and institutional framework that supports the development of innovative firms, multi-skilled workers, and healthy local and regional economies and labour markets.

Laying the foundations for a demand-led system

20. As a first step the Government has established a pilot scheme, which began in September 2002, to test a new policy approach to support training for low skilled people in the workforce. The approach being tested consists of four complementary, linked elements:

- free or subsidised learning provision and accreditation for employees without basic skills or level 2 qualifications, building on the current provision of free courses for basic skills;
- a minimum entitlement for all employees who have not attained basic skills or level 2 qualifications to paid 'leave for learning', working towards the level 2 standard – the pilots are exploring different time periods;
- financial support for employers whose staff take 'leave for learning', with additional financial incentives for small firms – the

pilots are exploring different levels of compensation; and

- extended information, guidance and support for employers and individuals taking part in, or considering taking part in, any new system.

21. These will be evaluated in 2003 and the findings built on.

22. The 2002 Spending Review has taken further steps towards addressing the issues highlighted in the first PIU report, through setting ambitious targets for skills, employment and productivity, including a commitment to supporting development at level 2, conducting a fundamental review of the funding of adult learning and piloting better co-ordination at regional level.

23. The Spending Review set three key targets:

- reduce by at least 40 per cent the number of adults in the workforce who lack NVQ2 or equivalent qualifications by 2010. Working towards this, 1 million adults already in the workforce to achieve level 2 between 2003 and 2006;
- improve the basic skill levels of 1.5 million adults between the launch of *Skills for Life* in 2001 and 2007, with an interim target of 750,000 by 2004; and
- at least 28 per cent of young people should start on a Modern Apprenticeship (MA) in the year beginning 2004 and there will be a wider vocational target (including Modern Apprenticeships) for 2010.

These can be achieved only with input from a number of other targets, set out in more detail in chapter 5.

24. The Government will review the funding of adult learning, examining the way in which the whole of the budget for post-19 learning supports adult learning and skills development and aiming to maximise the benefit both for businesses and individuals. The review will look at how the funding could be more effectively deployed to:

- provide incentives to employers to engage in training as part of their fundamental business development strategies;
- cause institutions to be responsive to the needs of individuals and employers, building in particular their capacity to work with businesses and organisations;
- widen participation in learning by the low skilled; and
- enable Regional Development Agencies (RDAs) to play a full and effective role in developing and implementing regional skills strategies.

25. The Government will pilot the pooling of budgets for adult learning and skills between RDAs and the LSC, reflecting the need identified in the PIU's earlier report to increase the responsiveness of supply of skills to employer demand. The pilots are designed to create a direct link between what the RDA knows about skill needs, sector priorities, economic trends and business development activity in its region with the capacity of the local LSC to secure responsive supply of skills, qualifications and business support. The pilots will start in April 2003 and run for two years. Jobcentre Plus will be actively involved from 2004.

26. In addition, the Government will also pilot better joint working between RDAs and the Small Business Service.

27. Working closely with the SU, the LSC has developed its Workforce Development Strategy, aligned with and published alongside this report. The LSC has the

statutory remit to raise skill levels and demand for learning, and engage employers in improving skills for employability and national competitiveness. The Workforce Development Strategy provides a national framework for activity across the 47 local LSCs. It places workforce development at the heart of the LSC remit, and will ensure that the needs of employers and the workforce are key drivers in the allocation of the annual LSC budget, particularly the £2.5 billion[1] for adult programmes.

An action plan for taking things forward

28. In this report we set out an overarching action plan for taking these initiatives and developments forward, based around the three key pillars of:

- raising demand;
- improving the responsiveness of supply; and
- putting in place the right government framework.

29. The plan is a starting point. Moving to a demand-led system is a long-term process which will require an innovative and sustained approach.

30. A more detailed action plan is set out in annex 1 of this report.

Raising demand from employers and individuals will require:

Promoting the benefits of workforce development

31. *For employers* this means promoting the value of workforce development through identifying and sharing best practice in both ambitious business strategies and skills development in particular, recognising that demand for skills is derived from business need. The Department of Trade and Industry (DTI) review of Business Support has responded to the first PIU report by focusing on actions to raise employer demand for skills.

32. DTI's work has an accent on promoting and improving vital management and leadership skills to encourage a development culture in which workforce development needs are better identified and skills are used more effectively in the workplace. Sectoral sponsorship and best practice work helps business identify new strategies and link these with workforce development. Benchmarking, mentoring and networking will support this by providing organisations with examples of what works and opportunities to communicate with others who have similar experience. These methods support employers on their own ground and place skills within the context of wider business concerns.

33. The corollary to sharing best practice is recognising achievement – awards and quality standards will provide important status incentives to further drive change by publicising what works.

34. The role of unions is key to promoting the benefits of workforce development to *employers and individuals*, providing opportunities and helping to overcome barriers to participation by brokering agreements between employers and the workforce. These partnership-based approaches will continue to form a major plank of workforce development policy.

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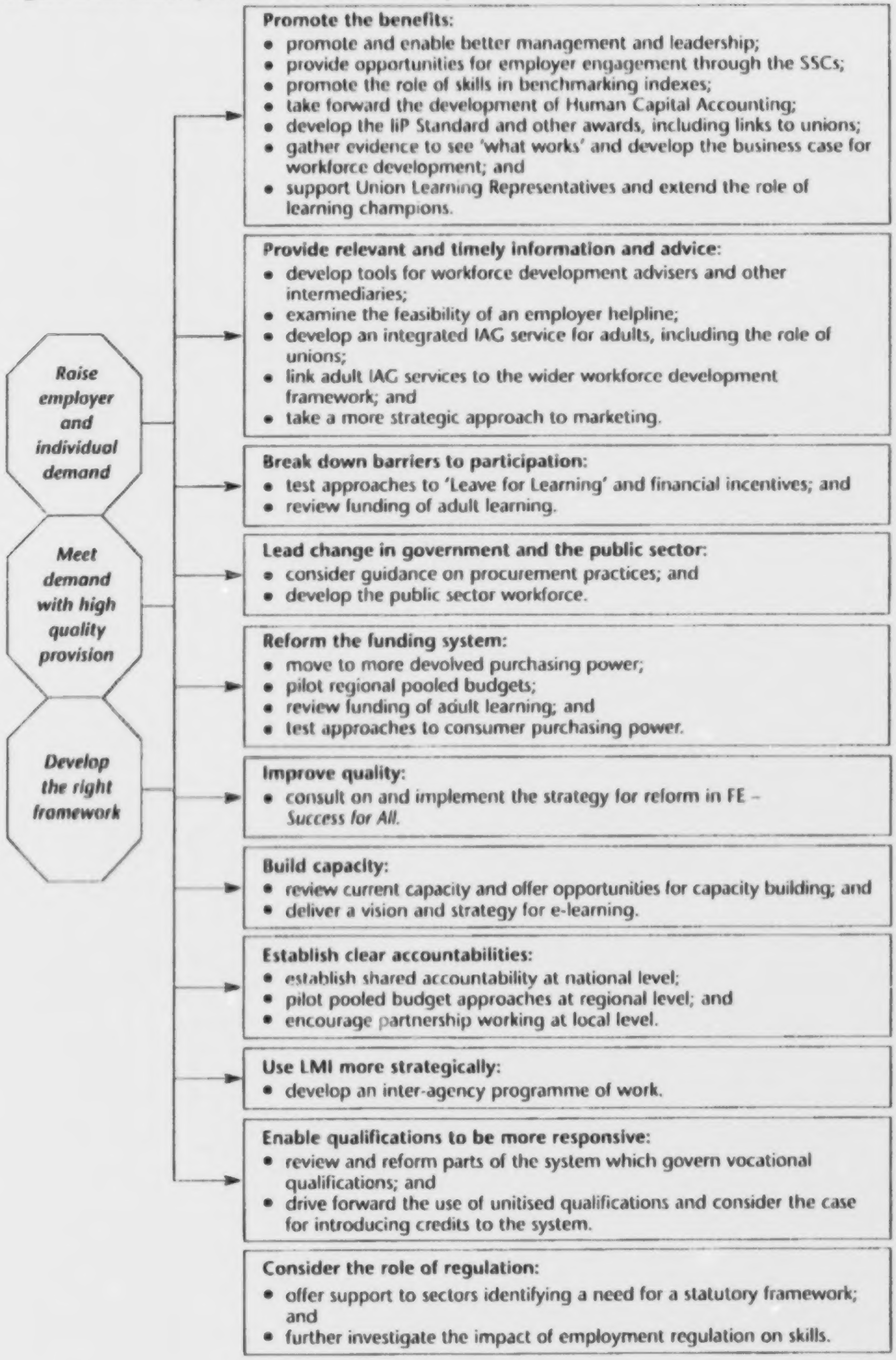
[1] Funding for adult programmes is expected to rise to £2.7 billion for 2003/04 (*LSC Grant Letter 2002/03*, December 2001, see www.lsc.gov.uk/documents.cfm).

Figure 2: An action plan for workforce development



Raise employer and individual demand

Meet demand with high quality provision

Develop the right framework

Promote the benefits:
- promote and enable better management and leadership;
- provide opportunities for employer engagement through the SSCs;
- promote the role of skills in benchmarking indexes;
- take forward the development of Human Capital Accounting;
- develop the IiP Standard and other awards, including links to unions;
- gather evidence to see 'what works' and develop the business case for workforce development; and
- support Union Learning Representatives and extend the role of learning champions.

Provide relevant and timely information and advice:
- develop tools for workforce development advisers and other intermediaries;
- examine the feasibility of an employer helpline;
- develop an integrated IAG service for adults, including the role of unions;
- link adult IAG services to the wider workforce development framework; and
- take a more strategic approach to marketing.

Break down barriers to participation:
- test approaches to 'Leave for Learning' and financial incentives; and
- review funding of adult learning.

Lead change in government and the public sector:
- consider guidance on procurement practices; and
- develop the public sector workforce.

Reform the funding system:
- move to more devolved purchasing power;
- pilot regional pooled budgets;
- review funding of adult learning; and
- test approaches to consumer purchasing power.

Improve quality:
- consult on and implement the strategy for reform in FE – *Success for All.*

Build capacity:
- review current capacity and offer opportunities for capacity building; and
- deliver a vision and strategy for e-learning.

Establish clear accountabilities:
- establish shared accountability at national level;
- pilot pooled budget approaches at regional level; and
- encourage partnership working at local level.

Use LMI more strategically:
- develop an inter-agency programme of work.

Enable qualifications to be more responsive:
- review and reform parts of the system which govern vocational qualifications; and
- drive forward the use of unitised qualifications and consider the case for introducing credits to the system.

Consider the role of regulation:
- offer support to sectors identifying a need for a statutory framework; and
- further investigate the impact of employment regulation on skills.

35. Whilst local and peer-to-peer marketing is often most effective, promoting the benefits of workforce development to *employers and individuals* also takes the form of high-profile country-wide campaigns. Such activity will be co-ordinated to avoid confusion, and ensure a clear message and coherent marketing strategy.

36. *For individuals*, like employers, promotion will be best achieved by approaching people on their own ground, through intermediaries in their workplace or community who can identify their particular circumstances and provide an opportunity to communicate with others in a similar position.

Providing relevant and timely information and advice

37. Ensuring that demand is well informed is vital to creating a more demand-led system.

38. *For employers and individuals* provision of information and advice services will follow the same principles as promotion: meeting customers on their own ground through trusted networks and intermediaries and allowing diversity of approach.

39. Where government does provide brokerage services for workforce development it will ensure that these are easy for users to access and that infrastructure design will support the accuracy and relevance of the information and advice at hand. Making full use of the routes to market which are available (web, phone, face to face), without leading to a confusion of services, is also a priority.

40. For employers it is particularly important that government advice services do not try simply to 'sell skills' but rather that they integrate skills in broader advice on business strategy as a possible solution to diverse business needs.

Breaking down barriers to participation: time and money

41. Capital and time constraints can limit demand for workforce development even once employers and individuals are aware of the benefits and opportunities available.

42. *For employers and individuals* there is already financial support available in the system and this can be delivered using a variety of mechanisms, including entitlements, rewards and compensation. These mechanisms will enable government to target existing resources on those facing the most significant barriers to development, particularly the lowest skilled and small firms. The Government is currently testing a range of approaches around leave for learning for individuals and financial incentives for employers. It is also conducting a review of funding for adult learning.

43. It is essential that where these incentives are used, they are mediated through effective information and advice services and appropriate mechanisms which enable employers and individuals to articulate their demand in the skills market.

Improving supply will require:

Flexible funding

44. New methods of funding which enable greater responsiveness to employer and individual demand will be developed, especially in light of the review of funding for adult learning announced in the 2002 Spending Review. The overall principle here will be to devolve purchasing decisions, as far as possible, so that they are closest to consumer demand. A smooth transition to this system will require a gradual shift over time and will develop in directions based upon testing what works best.

The Government has announced its commitment to a successor scheme to Individual Learning Accounts (ILAs).

Improving quality

45. The Department for Education and Skills (DfES) has launched a consultation, *Success for All,* on raising quality in the further education (FE) sector. The proposed strategy employs various levers to push up the quality of post-16 provision, including steps to professionalise the workforce and systems to measure performance, which promote innovation and ensure both sanction and reward. A final strategy will be announced shortly.

Building capacity

46. For the benefits of choice, competition and new forms of collaboration to be felt, diversity in the provider market must be encouraged. In the transition to a more demand-led system this will often require capacity building of alternative types and styles of provision to meet individual and employer need, and better management and leadership skills development. This is particularly relevant in the use of new technologies, which have a role in back-office systems and management as well as in provision of e-learning opportunities.

47. A key challenge for government will be how it opens up the market to private and voluntary sector providers, ensuring a level playing field with FE colleges whilst accounting for government spending.

Developing the government framework will require:

Clear accountabilities

48. Accountabilities and responsibility for workforce development need to be clarified at national, regional and local levels in England. This is largely a case of identifying the key players in the system and developing ways which facilitate joint working between them. At national level workforce development will be established as a cross-departmental priority through arrangements for joint policy making and consideration of a shared PSA.

49. At regional and local level collaboration can be encouraged through agreed protocols and frameworks for joint working. A particular approach which government will test is the role of pooling budgets for workforce development at regional level. This has the potential to encourage more co-ordinated and therefore more cost-effective activity whilst placing skills at the heart of regional strategies for economic development. Sector Skills Councils (SSCs) bring an important sectoral focus.

More strategic use of Labour Market Intelligence (LMI)

50. Information is key to the transition towards a more demand-led system. It must be used to inform demand and guide purchasing and planning decisions and must therefore be widely disseminated in accessible formats. These will vary for different employers, individuals and providers.

51. Making best use of the full range of LMI that exists relies on a framework for effective collection and dissemination. A more co-ordinated approach will be developed through shared agreement on principles and mechanisms which encourage cross-agency working.

A more flexible and responsive qualifications system

52. Qualifications can underpin many of the principles of a comprehensive workforce development strategy. They provide recognition, reward and a means for the effective working of the labour market, as well as for ensuring quality of the development experience. The qualification system needs to be flexible and responsive enough to balance the demands of employers and individuals whilst maintaining quality and status.

53. This will be achieved through enhancing the structures by which qualifications are designed and approved and through increasing the opportunities for unit-based achievement.

4. WORKFORCE DEVELOPMENT IN A WIDER CONTEXT

Key points

- This workforce development strategy focuses on the stock of low skilled adults in or near the workforce.
- Raising demand for higher skills rests crucially on the ability to stimulate higher value-added, innovative business and workplace strategies more generally. This cannot be achieved by workforce development alone.
- Workforce development is also part of the wider agenda to promote the flow of skilled people into the workforce, through young people, labour market returners and immigration.
- The Government aims to publish an overarching skills strategy in June 2003.

Workforce development in a wider context

54. The SU was asked to examine policies for the stock of adults already in or near the workforce, particularly the lowest skilled and those working in small firms.

55. Raising business demand for higher level skills is crucial to this agenda. Skills cannot be seen in isolation from a much wider agenda of promoting ambitious, innovative and successful businesses in the UK, which adopt value-added development strategies and high performance working practices. This cannot be achieved through workforce development alone and progress on the wider agenda is key to achieving the objectives set out here.

56. Equally workforce development needs to be seen in the context of measures targeting not only the development and use of skills by the *existing* workforce but also bringing a constant flow of new skills into the workforce from the education system, those on the margins of the labour force and skills imported through immigration.

Raising the skills of the workforce of the future

57. In *14–19: extending opportunities, raising standards*, the Government put forward and consulted on a range of options for developing a single phase in the education system for 14 to 19 year olds. Responses to the consultation are currently being considered, with an announcement on the outcome due shortly. Although subject to further development and change, the overarching objectives of the strategy – to raise achievement, improve employability and diversify methods of delivery – support

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the need for continuous improvement of new entrants to the workforce.

58. Collaboration with employers is central to the 14–19 agenda and will need to be explored in pathfinder projects that the consultation proposes. The proposals emphasise increasing the status of and access to vocational and vocationally related pathways, recognising the significance of work-related learning, employability and enterprise alongside more traditional general education subjects. The importance of basic skills development as an integral part of vocational qualification pathways is recognised as a critical factor for overall and long-term success.

59. Work-based routes also have a firm place in the 14–19 strategy, offering young people a broad base of vocational development. Modern Apprenticeships (MAs) are a critical component of the drive to improve the supply and quality of workforce skills and encourage a greater range of employer participation. The LSC is leading on the implementation of the recommendations of the Cassells report: a national framework for MAs and the introduction of technical certificates and new arrangements to support employers including Apprenticeship Agents. The LSC and Adult Learning Inspectorate (ALI) are working to improve the problems in quality identified by the recent ALI report. In areas where there are acute skill shortages – for example the rail industry – the MA model has been developed for the over-25s.

> *The importance of MAs is recognised in the new PSA target set in the Spending Review: at least 28 per cent of young people should start on an MA in the year beginning 2004 and there will be a wider vocational target (including MAs) for 2010.*

Raising skills to a higher level

60. Higher education also has a significant role to play in ensuring a flow of highly skilled young people into the workforce. If the Government is to achieve its target it will also be crucial to ensure that those already working have routes to higher education. Skills at level 3 thus have a vital role to play not only in increasing productivity but also in helping to raise overall skill levels over time. It is at this level that returns to employers become increasingly apparent, and SSCs will have a major role to play in raising demand and thereby investment.

> *The importance of this is reflected in the PSA target to increase participation in higher education (HE) towards 50 per cent of those aged 18–30 by 2010. This implies closer links between higher education and the workplace.*

61. The Government will therefore:

- encourage more people, from all backgrounds, to aspire to higher education;
- work to improve the relevance of provision to the workplace and the labour market, particularly through closer collaboration with employers;
- strengthen progression routes into HE for the existing workforce, especially those with vocational skills and qualifications; and

- build on the success of Foundation Degrees.

62. Further details of the steps to take forward policy in these areas will be announced in a higher education strategy document in 2003.

Skills as a passport to the labour market

63. Workforce development is not only about people who are already in work. It is about those near work, such as women returners, older people needing to reskill, and the unemployed. Even in times when unemployment levels are relatively static, over 3 million people move out of work every year (either into unemployment or inactivity), and a similar number move in. Workforce development must therefore encompass not only those in employment. Through the Department for Work and Pensions (DWP) and Jobcentre Plus the Government invests massively in helping workless people find employment and contribute to the productivity of firms. The key role of Jobcentre Plus is to help people into work and to keep as large as possible the effective workforce by overcoming individual barriers to effective participation in the labour market where necessary. The creation of Jobcentre Plus from the merger of the Employment Service and parts of the Benefits Agency is extending this work-focused service to groups other than the unemployed, in particular lone parents and people with disabilities.

> *"Our priority has always been getting the jobless into work. But the test of a successful society is where people don't just get jobs but get careers... we want everyone to have the chance of a career in which they feel they can progress."*
>
> Welfare Speech by the Prime Minister
> 10 June, Jobcentre Plus, Streatham, London

64. Many unemployed and economically inactive people lack the skills they need to participate fully in the labour market. This is why training represents a substantial element of a number of employment programmes, such as the New Deals and Work Based Learning for Adults. Most of this training consists of vocational courses to meet employer needs, and training focused on addressing the basic skills needs that hinder people trying to make a first step into work. By making help available for those who lack the skills to secure work and stay in it, Jobcentre Plus makes a major, direct contribution to the overall supply of work-based skills in the economy.

65. It is also important that being outside the labour market should not mean becoming detached from it. Maintaining full engagement with the labour market, and keeping to a minimum the length of spells of unemployment, enables people to maintain their skills and keep them up to date, and to gain an understanding of the work opportunities available, and of the personal benefits of raising their skill levels. Maintaining engagement with the labour market is also important for economically inactive people, such as lone parents with young children, even if they are not yet in a position to start work. Through its training and employment policies, Jobcentre Plus now helps all jobless benefit recipients of working age maintain contact with the labour market.

Ambition: enabling people to train for – and get – higher skilled, better paid jobs

Ambition is a joint initiative of Jobcentre Plus and the National Employment Panel. The programme was launched by the Chancellor in March 2001. It is designed to engage industry expertise in the design of demand-led programmes to get unemployed and disadvantaged jobseekers into jobs that pay well and have real career potential.

There are currently four Ambitions at various stages of design and delivery:

- Ambition: Retail, which has a target to get 1,000 clients into jobs by end 2004;
- Ambition: Construction was launched in October 2001. Its target is to place 1,000 people into skilled jobs within the sector by September 2005;
- Ambition: Energy was launched by the Prime Minister in June 2002 with a target to achieve 4,500 sustainable jobs across the energy sector by March 2005; and
- Ambition: IT. The first pilot began in Manchester in October 2002. The programme has a target to achieve 5,000 jobs by mid-2004.

And the National Minimum Wage promotes participation by establishing fairness and making work pay.

66. Regeneration and neighbourhood renewal provide an important backdrop for skills policy. Substantial resources from the Neighbourhood Renewal Fund (NRF) are being used by local partnerships to drive up skill levels in the poorest neighbourhoods.

67. DfES are committed to the Government's agenda for transforming the most deprived communities in England. Initiatives such as Ufi/**learndirect** have already been successful in establishing learning centres in some of these communities to provide ease of access and greater flexibility to meet the skill needs of both businesses and individuals. Six thousand UK online centres are being established to provide wider access to information and communication technology (ICT) facilities and skills acquisition for adults. Resources for Neighbourhood Learning Centres from 2002/03 will be concentrated in the 88 NRF areas and will include deprived wards outside these areas.

68. The LSC also contributes to the delivery of the Government's neighbourhood renewal strategy by supporting a revitalised adult and community learning sector, working with local authorities, Learning Partnerships and the voluntary and community sectors, and focusing on delivering increased learning opportunities and learner support to those in disadvantaged communities.

69. DfES, through the Adult Basic Skills Strategy Unit (ABSSU), is leading on the Skills for Life strategy, the Government's commitment to improve the skills of those groups where literacy, language and numeracy needs are greatest. Among the priority groups identified in Skills for Life are those low skilled people in employment. Current figures suggest that there may be as many as 3.5 million people in this group.

70. As well as this work-focused dimension, the Adult Basic Skills strategy, Skills for Life identifies and targets support on priority groups living in disadvantaged communities.

71. Many industry sectors are concerned about the impact on their skills profile of an ageing workforce, at a time when there are fewer young people in the labour market. They are seeing the benefits of creating pathways into their sectors for more women returners, ethnic minorities or older people – and of improving career mobility within sectors. The Government is introducing new measures to provide working parents with more choice and more support to balance their childcare responsibilities with work in ways which benefit employers and employees.[8] Some sectors are already engaged in collaborative action to improve labour mobility and the Government will continue to support them as appropriate, for example through the Sector Skills Councils and in ensuring appropriate flexibility in qualifications and public support arrangements.

Importing skills

72. Immigration policy also has a role in contributing to the mix of skills in the economy and the Government is developing policy in a range of areas. These were set out in the White Paper *Secure Borders, Safe Haven: Integration with Diversity in Modern Britain* published in February 2002, including:

- reforming the work permit system and promoting other work-related managed migration routes such as the Highly Skilled Migrant Programme;
- enabling international students to seek work opportunities in the UK for a period of time following completion of study;
- conducting a review of the Seasonal Agricultural Workers' Scheme (SAWS) to establish how it might better meet the needs of agriculture and considering the case for building upon the principles of SAWS in order to meet the demand for short-term casual labour within other, specific sectors of the UK economy; and
- conducting a review of the Working Holidaymakers Scheme to utilise its capacity to provide an additional, temporary, flexible workforce, and make it more inclusive to a broader range of Commonwealth citizens.

73. Also included in the White Paper are proposals to support the integration of refugees and to prepare people for citizenship. The Government is providing funding of £1 million a year from 2002/03 towards integration projects and reconsidering eligibility for and funding of free provision of English as a Second or Other Language (ESOL) to improve availability.

Developing science skills for innovation

74. Human ingenuity is a key factor in creating new products, services and processes. Highly skilled scientists and engineers are therefore paramount in the success of the UK's research and development (R&D) and innovation performance. In its recently published strategy, *Investing in innovation,* the Government demonstrates how extra resources and reforms will improve the sustainability of the research base, and will embed technology-based innovation within the Government's growth agenda.[9] Such interests will also be represented within the emerging network of Sector Skills Councils (SSCs), for which the technology,

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[8] From April 2003 maternity pay and leave will be improved; new fathers will gain the right to paid paternity leave; and adoptive parents will gain comparable rights. In addition, parents of children under 6, and parents of disabled children under 18, will gain the right to request to work a flexible working pattern and their employers will have a duty to consider their requests seriously.

[9] The strategy is available at www.hm-treasury.gov.uk/mediastore/otherfiles/science_strat_sum02.pdf

engineering and science sector has just been awarded SSC development status.

75. As a key part of this strategy, the Government is taking forward the recommendations of Sir Gareth Roberts' review on the UK supply of scientists and engineers, entailing new resources of £100 million per year by 2005/06.

76. Innovation more widely depends critically on the development of wider skills and capabilities such as team working, creativity, enterprise, management, leadership and communication, all of which are important aspects of the Government's skills agenda. In turn, innovative practices play a vital role in stimulating demand for higher level skills.

A skills strategy

77. The Government will publish a skills strategy in June 2003, setting workforce development in this wider context.

5. DEFINING AND MEASURING SUCCESS

Key action points

- The Government will track progress against a range of targets for workforce skills.
- The Delivery Unit will work with departments to ensure that targets on skills are achieved, including the following PSA targets:
  - *reduce by at least 40 per cent the number of adults in the workforce who lack NVQ2 or equivalent qualifications by 2010. Working towards this, 1 million adults already in the workforce to achieve level 2 between 2003 and 2006;*
  - *improve the basic skill levels of 1.5 million adults between the launch of Skills for Life in 2001 and 2007, with an interim target of 750,000 by 2004; and*
  - *at least 28 per cent of young people should start on a Modern Apprenticeship (MA) in 2004 and there will be a wider vocational target (including MAs) for 2010.*
- The three main government departments will work together with the Treasury to develop a clear framework for measuring outcomes on workforce development performance by autumn 2003.

Defining and measuring success

78. The Government has drawn up a detailed strategy to make a real impact on the development of the workforce. Action is already in train in a number of areas. But progress needs to be measured to ensure that real and lasting change is being delivered. The Government proposes to do this in three ways:

- in the short term, progress will be tracked against a range of targets;
- the Delivery Unit will work with departments to ensure that targets on skills are achieved; and
- for the longer term, the Government will develop a clear framework for measuring outcomes on performance in workforce development to be ready by autumn 2003 and inform the debate around the next Spending Review. The LSC has already put work in hand to inform this process.

Targets

79. The Government has set itself a range of PSA targets which, combined, will make significant progress towards a more skilled workforce. The three key targets are:

- to reduce by at least 40 per cent the number of adults in the workforce who lack NVQ2 or equivalent qualifications by 2010. Working towards this, 1 million adults already in the workforce to achieve level 2 between 2003 and 2006;
- to improve the basic skill levels of 1.5 million adults between the launch of Skills for Life in 2001 and 2007, with an interim target of 750,000 by 2004; and
- at least 28 per cent of young people should start on a Modern Apprenticeship (MA) in the year beginning 2004 and there will be a wider vocational target (including Modern Apprenticeships) for 2010.

To achieve these targets on skills, progress will be necessary against a range of other related PSA targets. These are in turn supported by the skills targets:

- challenging targets will be set for minimum performance and value for money in FE colleges and other providers by the Government and the LSCs;
- by 2010 increase participation in higher education towards 50 per cent of those aged 18 to 30;
- demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle;
- over the three years to spring 2006, increase the employment rates of disadvantaged areas and groups, taking account of the economic cycle – lone parents, ethnic minorities, people aged 50 and over, those with the lowest qualifications, and the 30 local authority districts with the poorest initial labour market position, and significantly reduce the difference between their employment rates and the overall rate;
- improve the relative international performance of the UK's science and engineering base, the exploitation of the science base, and the overall innovation performance of the UK;
- help to build an enterprise society in which small firms of all kinds thrive and achieve their potential, with (i) an increase in the number of people considering going into business, (ii) an improvement in the overall productivity of small firms, and (iii) more enterprise in disadvantaged communities; and
- make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006.

The Prime Minister's Delivery Unit

80. The Treasury and the Prime Minister's Delivery Unit together ensure that departments have in place effective delivery plans for their new PSA targets. This includes ensuring that these plans contain robust milestones and set out clearly how delivery will be achieved. Progress is reported through reports to the Cabinet and to the Prime Minister. The Delivery Unit will take a particular interest in the targets raising skill levels.

An outcome-based approach to measuring improvements

81. DfES, DTI and DWP will work together with the Treasury over the next year to explore how these targets can give a picture of improvements in the UK workforce over time with the focus firmly on outcomes. They will bring proposals to the next Spending Review in autumn 2003 with a strategy for:

- mapping outputs;
- from these constructing a clear picture of eventual outcomes;
- examining the existing evidence base and identifying where it needs augmenting;
- ensuring that this structure informs the way in which organisations work together at regional and local level and that targets do not conflict with each other; and
- if it would add enough value, suggesting an overarching framework within which the existing targets can come together to provide evidence of how the UK is improving its performance in workforce development.

82. The LSC has already set in train measures for gathering two sets of evidence which will yield important data for mapping and achieving success:

- a measure of the extent to which employers engage in training and developing their workforce. This will be based on a suite of universal indicators designed to measure business development and training focusing on planning, delivery and evaluation. This will provide a baseline from which to measure progress and target activity. The baseline will be established through a regionally commissioned survey to be rolled out during 2003; and
- measurement of Learner Satisfaction, launched in March 2002. Feedback from over 100,000 students over five years will give information on motivation for learning, quality of teaching and reasons for failure to complete programmes. Crucially it will also track impact on individuals. This will examine all categories of LSC-funded provision. Findings will be reported at national and regional level and made public online.

83. This approach allies clear and immediate targets with a longer-term focus on measuring outcomes. It is essential for the delivery of the action plan set out in this report.

6. TAKING ACTION FORWARD

Key action points

The Government will take forward action:

- at national level through a small joint unit of officials reporting to a joint Ministerial group and ultimately to the Cabinet Committee for Economic Affairs and Productivity (EAPC). The Delivery Unit will take an interest in progress;
- at regional level through Frameworks for Regional Employment and Skills Action (FRESAs); arrangements for piloting of closer working arrangements between RDAs, the LSC and Business Link organisations are in hand; and
- at local level through the LSC encouraging key partners to share information and planning, building on pilot work in hand.

Over the coming months the Government will publish more detailed explanations of its plans in a wide variety of areas, culminating in a skills strategy setting adult workforce development in the wider context of policies to develop skills.

Taking action forward

At national level...

84. At Cabinet level progress on workforce development will be tracked by a Cabinet Committee, as is the accepted practice for Strategy Unit reports. Workforce development will be overseen by the existing Economic Affairs and Productivity Committee (EAPC), chaired by the Chancellor and with a membership drawn from across the Government to ensure that the cross-cutting nature of the issue is reflected in discussion. The role of the Committee will be to provide high level guidance rather than detailed decision making capacity.

85. At working level Ministers from DfES, DTI, DWP and Treasury meet regularly to track progress on a range of issues with a strong focus on workforce development and the skills strategy. This group will provide the impetus and focus, reporting regularly to EAPC. Progress on the delivery and impact of the LSC Workforce Development Strategy will feed into this process.

86. A small joint unit of officials drawn from DfES, DTI, DWP, the LSC and the Sector Skills Development Agency (SSDA) will support Ministers implementing the strategy. These officials will remain members of each individual department/body, but work closely together on a daily basis, co-locating for a certain part of each week. This will allow

them to work collaboratively whilst still being connected to the expertise and experience of each department. A Project Manager recruited specifically for the purpose of managing workforce development implementation will head the unit.

87. Effective working relationships will need to be forged with the new Advisory Panel on management and leadership and the joint DfES/DTI team which will support it.

88. The Delivery Unit will take an interest in progress, particularly on the targets around raising skill levels.

At regional level...

89. The development of FRESAs links skills firmly to economic policy and provides a mechanism for bringing key players together.

90. The Government announced in the recent Spending Review that closer working between agencies at regional level would be piloted through schemes both to pool RDA and LSC budgets, and to strengthen the regional management of business support services. The RDA/LSC pilots will place skills at the heart of the economic agenda. They will be rolled out from April 2003, with Jobcentre Plus becoming actively involved from 2004/05. This is a direct consequence of the analysis in the first workforce development report, identifying the need to increase the responsiveness of the supply of skills to demand from employers – both now and in the future.

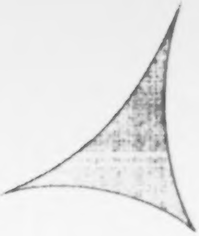
91. The terms of reference and structure of the forthcoming pilots are described more fully in the detailed action plan at annex 1.

At local level...

92. Local workforce development needs vary widely. It is essential that as much local autonomy as possible should be built into arrangements consistent with delivering the Government's wider objectives. That implies a constant interaction between local, regional and national levels with clarity of objectives and expectations. It also implies sharing of information, experience and objectives with partner organisations to ensure that outcomes are delivered which genuinely meet local need rather than organisational boundaries.

93. Working within the national framework set out in the LSC Workforce Development Strategy – which is in line with the approach set out in this report – each local LSC will integrate workforce development as a key component of their Local Strategic Plans. Local flexibility and innovation will support responses tailored to local employer and workforce demand and patterns of provision and partnership.

94. There is already much good practice. The LSC will set in train pilots to trial aspects of local co-operation, ensuring that they are firmly tied into the emerging arrangements for better regional and national co-ordination.



Developing the strategy

95. Over the coming months the Government will publish more detailed explanations of its plans in a variety of areas, including a skills strategy in June 2003, reflecting the development of a demand-led workforce development strategy in the context of wider government action on skills.

Key milestones	
Publication of the Government's response to the Council for Excellence in Management and Leadership (CEML) report	September 2002
Publication of the LSC Workforce Development Strategy	November 2002
Publication of the DfES HE Strategy	2003
DTI Business Support Review	Winter 2002
Follow-up to the FE strategy document Success for All	November 2002
Follow-up to the 14–19 proposals	To be announced
Publication of skills strategy	June 2003
Implementation of funding review proposals	From April 2004
Consideration of emerging evidence in the light of preparations for the next Spending Review	Late 2003

ANNEX 1: AN ACTION PLAN TO TRANSFORM WORKFORCE DEVELOPMENT BY 2010

Introduction

1. The first PIU report on workforce development set out a vision for a more demand-led system for workforce development and a strategy for achieving it by 2010. The Government is committed to moving in this direction. This annex sets out a plan for action.

2. The action plan in this report sets out what the Government will do, and when, under three headings:

- raising informed demand;
- improving supply; and
- developing the right Government framework.

3. The plan is complex. Improvements will be delivered in a range of ways and on varying timescales. Some changes will be delivered quickly. More fundamental changes contributing to the development of a more demand-led system will need piloting and consultation to ensure that future systems are built on real, well-informed experience. All the changes will need to be delivered by a web of institutions, which will have to work together effectively. This action plan should be seen as setting out a route map for that process.

4. An overriding theme of the transition towards a more demand-led system over the next few years is to find out what works. Pilot projects such as the Employer Training Pilots will test a whole range of approaches. The results will be gathered together and shared across departments to inform future government policy and spending decisions.

5. The 2002 Spending Review made some fundamental commitments to tackling the country's under-performance on adult skills:

- it set three ambitious targets for adult skills development, focused on tackling basic skills:
  - ensuring that at least 28 per cent of young people start on a Modern Apprenticeship in 2004;
  - a commitment to reduce by at least 40 per cent the number of adults in the workforce who lack NVQ2 or equivalent qualifications by 2010; and
  - working toward this, 1 million adults already in the workforce to achieve level 2 between 2003 and 2006;
- it announced a fundamental review of the funding of adult learning both inside and outside the further education (FE) system, which should be complete by the end of 2003; and
- it trailed pilots in two or three regions, whereby budgets for workforce development are pooled at regional level to promote joint working and the role of skills in regional strategies for economic development.

6. These are fundamental developments in the workforce development landscape.

They have a key role to play in achieving the vision, alongside the full range of other activity which comes together to form an England-wide workforce development strategy for the future, such as the Success for All strategy for reforming the FE sector, the ambitious target set for increasing the number of young people entering a Modern Apprenticeship, and the publication of the Government's response to the Council for Excellence in Management and Leadership report. Some of these actions will require consultation and joint action with the Devolved Administrations.

Raising informed demand

Raising informed demand: developing greater and better-informed demand for development among employers and individuals, focusing efforts on low skilled adults and small firms.

Achieved through:

- promoting the benefits of workforce development;
- providing relevant and timely information and advice; and
- breaking down barriers to participation.

Employers and individuals, and government leading the way

Employers

Promoting the benefits of workforce development by meeting employers on their own ground and embedding skills in matters of wider business strategy:

- encouraging effective management and leadership;
- identifying and sharing best practice: benchmarking, networking and mentoring;
- recognising and rewarding achievement; and
- ensuring that marketing is co-ordinated and strategic across all business support.

Providing relevant and timely information and advice:

- developing the information and advice infrastructure: maximising co-ordination and routes to market; and
- developing tools for intermediaries and business advisers.

Individuals

Promoting the benefits of workforce development by meeting individuals on their own ground:

- expanding the role of learning champions; and
- ensuring that marketing is co-ordinated and strategic.

Providing relevant and timely information and advice:

- developing the information, advice and guidance (IAG) infrastructure: maximising co-ordination and routes to market; and
- linking IAG with the wider workforce development framework.

Breaking down barriers for employers and individuals:

- testing a new approach to overcoming barriers of time and money; and
- enabling participation by empowering employers and individuals.

Government

The public sector as employer and purchaser.

Employers

7. Workforce development needs to be at the heart of business strategies if it is to have any impact. It is only one of a variety of strategies which businesses use to grow and increase profits and/or quality. The challenge is to position it as a key component in achieving higher value-added product strategies. It is thus intimately linked to improvements in management and leadership as a way to higher performance. And policies need to be set in a context which is familiar to business, meeting business on its own ground through mainstream business intermediaries, benchmarking and communications, and through existing employer networks.

8. Raising demand needs to ensure that the supply side, including the large amount of publicly funded provision, is responsive to demand. It needs to recognise equally that demand needs to be stimulated, and that this is a long-term process requiring sustained effort and a variety of innovative approaches. If employers do not see the benefits for their organisation, they will not invest; the combined effect of their investment with public funding is a powerful driver for productivity, social inclusion and innovation. The strategy set out here should be seen as the starting point in that process.

9. The Department of Trade and Industry (DTI) review of business support is responding to the first PIU report by focusing on action to raise employer demand for skills, with a strong emphasis on management and leadership. The Government will gather evidence, including evaluation results, and conduct pilots to demonstrate an effective approach. Delivery will be co-ordinated with other departments and agencies.

Key actions in raising employer demand

The Government will:

- promote demand for workforce development through Sector Skills Councils (SSCs) and gather evidence to bolster the business case;
- promote skills through better management and leadership;
- promote the role of skills in benchmarking indexes;
- take forward the development of Human Capital Accounting;
- develop the Investors in People (IiP) Standard and other awards;
- take a more strategic approach to communications and marketing;
- develop a clearer IAG infrastructure, including a look at the feasibility of setting up a helpline for employers; and
- develop tools for workforce development advisers and other intermediaries.

Tackling the wider business demand agenda

10. In October 2001 government launched Skills for Business, a UK-wide network of employer-led Sector Skills Councils (SSCs), to deliver skills-based productivity improvements in industry and the public services. They will be supported by the new Sector Skills Development Agency (SSDA).

11. SSCs are designed to tackle head on the fragmented nature of existing employer networks. SSCs will bring coherence to the demand side by identifying and galvanising action on priority skills issues by employers and supply-side bodies. SSCs will address all aspects of skills and workforce development – from labour supply and employment policies and services to the education and training of the current and future workforce. Their specialist focus on skills will develop in partnership with wider sectoral competitiveness initiatives, such as innovation and growth teams and Industry Forums.

12. In particular, SSCs will be expected to provide employer leadership for their sectors in working with government, public agencies and other supply-side bodies to:

- reduce skills gaps and shortages, anticipate future needs (through estimates of demand), exert leverage on the supply side, and provide help for employers and individuals to define and make informed choices about careers and personal development;
- improve business and public services performance through specific strategic and targeted action to increase skills-based productivity;
- increase opportunities to develop and improve the productivity of everyone in the sector's workforce, including action to address equal opportunities; and
- improve the quality and relevance of public learning supply, including the development of apprenticeships, higher education and national occupational standards.

13. As catalysts for change, SSCs will be at the forefront of promoting skills development in sectors, including meeting the specific needs of the small and medium-sized enterprise (SME) sector. The SSDA will also provide funding on a matched basis for SSCs to test innovative ideas that tackle specific sector skills issues and which can be sustained over time.

14. The SSDA will also provide active support to employers in developing proposals to form SSCs and will provide ongoing support to each SSC after a licence has been granted. The SSDA will provide core funding for SSCs and will ensure that high standards are maintained and that essential skills intelligence and other occupational-related functions are delivered for all sectors, including those without an SSC.

15. The development of SSCs is already under way. Four trailblazer SSCs have received licences and five further sectors are receiving SSDA funding support to develop firm proposals for an SSC. We anticipate continued demand from employers to form SSCs and for the new Skills for Business network to grow substantially over the next 3–5 years.

16. Jobcentre Plus has revised its employer services strategy, and aims to increase the extent to which employers in specific sectors use Jobcentre Plus to recruit. One of the ways in which Jobcentre Plus aims to achieve this is by developing new strategic relationships with representative organisations in particular sectors. SSCs will have a key role to play in helping the Department for Work and

Pensions (DWP) and Jobcentre Plus develop their understanding of sector recruitment needs. SSCs should also be able to assist Jobcentre Plus in the development of partnerships to deliver sector recruitment initiatives such as the Ambitions programme. SSCs and the SSDA will also provide intelligence on skills priorities and career opportunities to support the information, advice and guidance functions of Jobcentre Plus and the Connexions Service.

17. SSCs will be key partners to the programme of Learning and Skills Council (LSC) sector pilots that are central to the LSC Workforce Development Strategy. This programme seeks to link supply and demand by creating long-term, replicable, scalable and fundable models that address sector skill needs. Priority actions for each pilot sector will be identified with key partners and stakeholders, including local and national LSCs, providers and the employers and representative bodies from the sector – specifically SSCs and employers – and wider partners within the qualification, delivery and funding framework. Each pilot will last an average of 18 months and will be formally evaluated to produce clear recommendations for change that inform both local and national LSC policy, and feed into the Spending Review.

Promoting the benefits of workforce development, meeting employers on their own ground

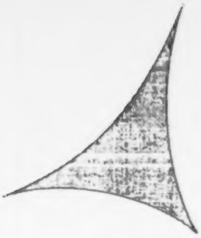
Promoting skills through better management and leadership

18. Raising workforce skills needs to go hand in hand with improving management and leadership skills to create an organisational culture that can grasp the right opportunities to innovate, change and grow. This is especially true in the context of rapid technological change and applies equally in the public and voluntary sectors. Workforce development is not just about skills development, but also requires effective *use* of skills in the workplace – excellence in management and leadership is vital to ensuring that this happens.

19. The *Government Response to the Report of the Council for Excellence in Management and Leadership (CEML)* demonstrates the Government's commitment to raising the game of managers and leaders. The response sets out a demanding agenda for action around the themes of stimulating demand, improving supply and ensuring effective delivery. A new high-level Advisory Panel of business and public sector leaders and Government Ministers will oversee progress and carry forward the wider agenda.
To support the panel and co-ordinate action a new cross-departmental team is being established. This team will maintain momentum and monitor the progress of the management and leadership agenda among the many interested stakeholders at the national, regional, local and sectoral levels across the UK.

20. The Government is committed to immediate action on some of the CEML recommendations, whilst others will need piloting to establish the delivery mechanisms that have the most impact. An early task of the new Advisory Panel will be to advise on this. The priorities are to:

- benchmark performance: develop an internationally benchmarked Framework of National Indicators of Management Capability;
- promote and make accessible management performance assessment tools: including the new IiP model on management and leadership, the Business



improvement Tool for Entrepreneurs (BITE) that CEML developed, the new Business Link CONNECT module on leadership;

- focus on SMEs and engaging intermediaries: reviewing what government can do to secure effective briefing, support and incentives for the intermediary network;
- promote best management practice: through business networks, with a campaign to raise leadership skills through development and use of an 'inspirational leadership index', measures to promote a diverse management talent pool, and opportunities to encourage business learning from business. Encourage informal and innovative workplace learning through coaching, mentoring and e-learning;
- set an example: by putting management and leadership central to government plans for the better delivery and reform of the public services;
- create the right business environment: by addressing how regulatory structures, fiscal incentives and governance influence performance. Encourage the development of high-performance work practices to create an environment that enables more direct involvement and the resulting increased motivation of employees;
- better preparation for school and college students: integrating management and leadership into the 14–19 skills curriculum;
- better training and development: through the Success for All strategy for FE, an increased emphasis on employability in higher education (HE) and through new national occupational standards and a coherent qualifications structure with clearer progression routes;
- work through sectors: using the SSDA and the SSCs to pursue management and leadership as a key cross-sector theme in their work. Develop clear learning pathways with the SSDA, the qualifications regulators, awarding bodies and professional organisations – supporting current work between the Qualifications and Curriculum Authority (QCA)/Scottish Qualifications Authority (SQA) and the Chartered Management Institute – to progress the integration of components of management and leadership in the NVQ system, sector-specific qualifications and professional development; and
- provide a 'no wrong doors' approach by developing a coherent customer-focused approach to providing management and leadership information to employers through Business Link Organisations, University for Industry (Ufi)/**learndirect** business centres and Laurel Online.

Identifying and sharing best practice

21. Skills have a role in achieving wider business goals. This means that conversations about skills need to take place in the context of other discussions about business strategy. Identifying and sharing best practice in business and drawing out the specific role of skills is a key way in which to demonstrate the potential of higher value-added strategies and the role of skills within them.

22. Current best practice activity seeks to actively integrate management and business processes with strategies for better workplace organisation. The key objective will be to build sustainable productivity improvements through closer co-operation between activities designed to deliver business process improvements, such as business-led Industry Forums, and people-focused activities, such as the Partnership Fund. The role of the 'Fit for the future' national best practice campaign will be to develop demand and

supply. Action to raise demand will lead to better understanding of what is meant by best practice, improving awareness of the value of adopting best practice and the support/services/tools available to assist business. Supply will be improved through providing business support organisations with a means of sharing knowledge and experience and through encouraging co-operation, collaboration and consistency.

23. Identifying and sharing best practice requires effective **benchmarking**, and using **networks** and **mentoring** to disseminate best practice in a way that suits the way businesses learn and develop.

Benchmarking best practice

24. Benchmarking enables businesses to diagnose their needs by reflecting upon their comparative position within a specific sector according to a range of indicators. The role of skills needs to be reflected in the wider business benchmarking agenda:

- the DTI will ensure existing business improvement tools reflect the role of skills, including the development of a skills module for the Benchmark Index and offering site visits to exemplar companies through its Inside UK Enterprise service. DTI and the Small Business Service (SBS) will ensure that various benchmarking activities are co-ordinated;
- selected Industry Forum programmes have integrated bespoke benchmarking modules which enable companies to identify areas for improvement before they participate in the Industry Forum Adaptation (IFA) programme;
- government will bring together the expertise of the Regional Development Agencies (RDAs), LSC and SSDA along with Ufi/**learndirect**, IiP UK, Adult Learning Inspectorate (ALI) and the Confederation of British Industry (CBI) to develop better evidence and intelligence about employer investment in skills. As a first step existing data will be analysed to establish a more coherent picture of current business investment in skills and the value it brings, building on the experience of collaboration in developing the Frameworks for Regional Employment and Skills Action;
- as part of the LSC Workforce Development Strategy, a measure, and ultimately a target, of employer engagement in workforce development is being developed. This measure will be rolled out in 2003 in order to set the baseline. Data will be available nationally, regionally, locally and sectorally and will support and inform LSC (and partner) planning and funding, as well as providing information on the impact and outcomes of activity supporting workforce development; and
- from 1 October 2002 the IiP 'Profile' benchmarking tool will be available to all IiP organisations. It can be used to provide organisations with a clearer idea of their relative performance in relation to other organisations in their sector, size or region. IiP UK is also developing a mechanism to trace business performance against this profile. This work will be aligned with DTI development of a skills module for the benchmarking index.

25. Unlike physical resources, the value of developing human resources does not show up in a company's accounts. Yet knowledge and skills play a major role in contributing to profitability. Wider reporting can help investors understand how human capital builds long-term corporate value; skills should be seen as part of that wider focus.

26. The *Modernising Company Law* White Paper proposed in July 2002 that economically significant companies should be required to report on key non-financial factors underlying their performance – including employment policy and practice – where they were material to an understanding of the business, as part of a statutory operating and financial review (OFR). While the Government intends to devolve to an independent Standards Board the task of drawing up detailed rules for the compilation of the OFR, as a first step it is establishing an independent group of experts to help in the process of guidance on how directors can assess whether an item is material to their company and hence must be included in an OFR.

What is human capital accounting?

Key business drivers and sources of competitive advantage do not just consist of technology or access to financial capital. Increasingly, less tangible assets such as knowledge, skills and capabilities are playing a major role in contributing to sustainable profits, especially in the service industry.

Despite this, the balance sheets of such businesses do not give a full picture of their assets. This can have an impact on lending or investing decisions. For companies facing pressure to produce large dividends for shareholders, the cost of training is seen as an expense which reduces dividends rather than as an investment which promotes future profit. Enabling firms to demonstrate the nature of that investment through their balance sheets could change attitudes.

Even promoting voluntary disclosure of this information can produce a knock-on effect in the business community, as more and more companies take a closer look at their training and development practices and compare themselves to their peers.

The details that can be reported in human capital accounts, and how they should be defined and measured, will need careful consideration. Possible areas include:

- qualification levels;
- competence indices;
- employee views/360-degree feedback/exit interviews;
- training expenditure;
- spread of training;
- work/process/product changes and resultant training;
- innovative approaches (such as volunteering networks); and
- recruitment/retention costs.

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Networking and mentoring

27. Once best practice has been identified via benchmarking activities, it needs to be shared through existing and new channels which meet employers on their own ground. Businesses listen above all to their peers. Networking and mentoring are vital to the process of dissemination, particularly for small businesses which may not have time or capacity to keep up to date with developments.

28. In October 2001 the Government launched Skills for Business, supporting a UK-wide network of employer-led Sector Skills Councils (see paragraph 12 on page 34). Five SSC trailblazers have been launched for the following industries:

- audio-visual;
- environment and land-based;
- chemicals manufacturing and petrochemical;
- apparel, footwear and textiles; and
- retail.

The technology, engineering and science sectors, along with e-skills, hospitality, tourism and leisure sectors, are developing formal proposals for the award of an SSC licence.

29. The DTI promotes the use of business networks as a means of raising employer demand for, and access to, skills development. It will mainstream skills in the Department's networking activity. Pilot work is planned to identify ways of building the impact of this approach. Business Links can act as a facilitator for a range of networking and mentoring activity around the workforce development agenda, for example:

- North-East – the Business Link Tyne and Wear in partnership with the LLSC contacted 1,000 SMEs using a diagnostic framework to establish their business development needs and begin to meet these using Business Link advisers. This has proved an effective vehicle for driving up demand for workforce development services;
- London – the Business Link for London is running leadership and company direction programmes with the Institute of Directors as part of wider working with partners to deliver its detailed workforce development strategy for 2002/03; and
- North-West – the Business Link East Lancashire has established a management development programme – Action for Business – in which 17 SMEs have already participated.

30. The findings of two evaluation projects in relation to employer learning networks will need to feed into this work:

- the projects that received funding from the £2.5 million Employer Learning Networks (ELN) Challenge Fund. The evaluation has been completed and published.[10] It shows that networks are useful for engaging employers in workforce development, albeit less so for leveraging in resources. It also emphasises the importance of experience and credibility within the sector of project leaders; and
- the DTI's Engineering Technicians programme provided funding worth £1 million to support some 16 projects that formed clusters of small firms ranging across a wide variety of engineering areas, including automotive components, textiles, casting and electro-technical. An evaluation will draw out lessons and best practice on establishing and developing the networks,

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[10] Available on the DfES website – www.dfes.gov.uk/research

the sustainability of the networks (both financial and organisational), and the outcomes in addressing sectoral skills issues.

31. The proposals outlined below for IiP Beacon Status (see paragraph 32) will provide a framework for mentoring from successful companies to those looking to develop.

Recognising and rewarding achievement

32. Awards and quality standards are important status incentives that can drive change by promoting and publicising what works. The Government will therefore:

- launch a new recognition of achievement in Investors in People – **IIP Beacon Status**. This will be awarded to companies who demonstrate excellence not only in their own practices but in offering help and support to other companies to reach the standard – for example those in their supply chain. There will be potential for IiP Beacon Status to be linked with the Inside UK Enterprise Scheme and also the new **matrix** standard for provision of information and advice by employers to their employees in the workplace;
- take forward the IiP small firms initiative, managing the £30 million investment announced earlier this year to support more small firms working with the IiP standard. The objective here will be to use IiP as an instrument to promote effectiveness, productivity and competitiveness of small firms (between 5 and 49 employees) in the private and voluntary sectors. This investment, managed by the LSC, will be linked to a target of 20,000 additional commitments to working with IiP, and an aspiration that around half of these will achieve recognition. National targets will be mediated by locally generated measures and experience;
- consider the recommendations of the recent review of publicly funded training awards. These are:
  - to publicly restate the aims of National Training Awards (NTAs) and confirm their future and importance in relation to workforce development strategy across the UK;
  - to take a more strategic approach to the development and marketing of awards, involving a wider group of key stakeholders in this process; and
  - to carry out an in-depth assessment of the impact and economic costs and benefits of NTA in relation to its wider aims of encouraging others to take part in training;
- offer its support to the new Employer Collaboration Awards within the NTAs; and
- improve recognition of activity in sectors through SSDA working with UK Skills on linking sectoral awards with NTAs.

Ensuring marketing is co-ordinated and strategic

33. While it is recognised that communication with employers is best undertaken on their own ground, the wider marketing strategy for the concept of workforce development has an important role to play in raising awareness of the skills agenda. In order to do this effectively, and support the LSC in its statutory duty to promote learning, government needs a more strategic and joined-up approach to its various activities in marketing, communications and use of channels to business which have a bearing on workforce development.

34. To achieve this, government will review the effectiveness of both existing and past communications groups and consider the best way to bring together policy makers with internal marketing experts to secure greater strategic co-ordination to marketing and communications. It will be important to build on previous experience, especially the approach to communications with small business highlighted in the 2002 *Spending Review* White Paper.

35. There is a case for a new, consolidated group that would:

- segment and analyse the market appropriately to ensure that the right messages are reaching the right people at the right time and are linked with the wider business support agenda;
- co-ordinate messages about skills and workforce development, generating a common language where this is deemed necessary;
- ensure that the skills agenda is highlighted within existing promotional campaigns such as 'Fit for the future' and associated industry fora;
- consult with the full range of stakeholders[11] to ensure that the various campaigns underway can be brought together into a consistent overall strategy; and
- report directly to the joint Ministerial group leading on workforce development (see chapter 5).

36. This group might also have a similar role in providing strategic direction to marketing workforce development to individuals, as described more fully in paragraph 48 below.

Providing relevant and timely information and advice

37. Raising informed demand relies on a comprehensive information and advice service which is easy for employers to access in a variety of ways to suit their needs. This means providing web-based, telephone and face-to-face services which exploit all routes to market without leading to employer confusion.

Developing the information and advice infrastructure

38. There are many sources of publicly funded information and advice available to employers, often reflecting the diversity of their needs.

- The cross-cutting review of services for small business considered the full range of government services from the customer perspective, with the aim of increasing their efficiency and effectiveness. Following the review, the SBS has been tasked to work across government to improve service quality. In addition, funding of £40 million above 2002/03 levels by 2005/06 will take forward e-delivery of services, to make dealing with government quicker and easier.
- The business.gov initiative is tasked with ensuring a wider provision of information to employers. As a new Capital Modernisation Fund project, its challenge is to develop services that are designed with the needs of customers as paramount. Its aim is to link information and transactions together in logical settings and present the range of government services in a way that looks and feels coherent to the customer.

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[11] These include: LSC, Ufi/**learndirect**, the Adult Basic Skills Strategy Unit (ABSSU), SBS, SSDA/SSCs, QCA, Campaign for Learning, National Institute of Adult Continuing Education (NIACE), Connexions Service, UK Skills, awarding bodies and others.

- The Jobcentre Plus network handles around 10,000 new vacancies every day and is in contact with employers millions of times annually. As well as providing labour market advice directly to employers, Jobcentre Plus advisers have the information to signpost businesses to other organisations, such as the local Business Link organisation. Working arrangements to ensure this happens as effectively as possible will continue to develop as new infrastructures bed in.
- The Business Link organisation website (www.businesslink.org) acts as a central access portal to advice on all small business issues. The website provides a huge range of business information and includes factsheets, case studies and frequently asked questions, as well as links to other relevant websites.
- The Manufacturing Advisory Service website (www.dti.gov.uk/manufacturing/mas) likewise provides a portal for manufacturing employers.

39. In addition to these mainstream sources of information and advice, the Government will seek to develop a more co-ordinated approach to the range of access points currently available. The Department for Education and Skills (DfES), the DTI and the DWP, along with the SBS, Ufi/**learndirect**, LSC and SSDA, will consider the feasibility of developing improved information resources to support an employer helpline as a 'first-stop' shop for information and advice on skills. Terms of reference for the study will be agreed by December 2002. In broad terms, the study will need to consider:

- the nature and level of demand for this kind of service, including lessons to be learnt from other helplines and initiatives;
- different options for the scope of a helpline, other delivery mechanisms and information sourcing;
- impact on current infrastructure;
- a cost-benefit analysis of options; and
- funding and branding issues.

40. This work will build on a phone line that the Adult Basic Skills Strategy Unit (ABSSU) is launching from March 2003 as part of its promotion campaign to engage employers. The phone line will provide information on basic skills development in the workplace and

Pilots for better co-ordination of business services

In the Spending Review the Government committed itself to strengthening the relationship between regional strategies for economic development, articulated through the RDAs, and the support service which is provided by government to business through the SBS. The SBS, through its network of Business Link organisations, provides access to integrated support across a range of issues, including investment, technology, skills, best practice and premises.

The SBS and RDAs will pilot and evaluate different RDA-led approaches to improving co-ordination of business support services locally and will strengthen the link between local Business Link organisation services and Regional Economic Strategies. Pilots will be set up by April 2003. The evaluation will be staged throughout the life of the pilots. The first stage will look at the joint planning process between October and December 2002 and the second stage will look at roll-out and delivery over the two years of the pilot.

will link employers with an adviser who can provide local face-to-face support.

Developing tools for workforce development advisers…

41. Workforce development advisers perform a vital role in promoting and brokering skills development activity. The Government will develop a range of tools to help them do this effectively:

- LSC will develop a workforce development Advisers' Toolkit. It will provide guidance on promoting the business case for investment in skills, and information on the portfolio of workforce development support that employers can access. The toolkit will be developed in consultation with the SBS;
- ALI, working with the LSC, has undertaken work to make information on the quality of provision more easily accessible to business. In addition to a detailed management briefing made available to providers, a new, shorter report format has been developed and will be used to report on inspections from April 2003. A marketing and dissemination plan will be developed to raise awareness among employers and individuals of the availability of the shorter reports. The new reports will be available through the ALI website, alongside a new database of good and poor practice examples. Initial evaluation will take place in late 2003;
- employer and SME engagement will be a priority for the ABSSU promotion campaign in 2003. The campaign will include support and resources for employers and will build on the awareness raised through the toolkit for larger firms and the guidance pack already available to SMEs; and
- the LSC will work with Jobcentre Plus to provide employers with access to appropriate information about workforce development. The benefits of this mechanism have already been demonstrated through pilot work with Ufi/**learndirect** in 11 areas of the country.

… and tools for other intermediaries

42. Businesses do not necessarily see it as a priority to talk to government; but nearly every business deals with banks, accountants and solicitors. The Government will examine ways of using these contacts to enable more effective skills brokerage in the context of broader business information and advice services. A central part of this will be the development of effective workforce

learndirect *premier business centres*

Ufi/**learndirect** has developed an employer engagement strategy for both large employers and SMEs focused on 'training for the bottom line'. The strategy takes a holistic approach to working with businesses, focused on their particular business development agenda, encouraging them to grow and achieve their longer term aspirations and, through this, providing the underpinning that learning and skills development require.

A network of 50 learndirect premier centres is being accredited by the Small Firms Enterprise Development Initiative (SFEDI) to provide business-focused services to SMEs. To date, Ufi/**learndirect** has engaged 50,000 SMEs and is working with a range of large employers, including Barclays, Tesco, Asda, the NHS, the Army, Virgin Trains and Nissan.

development information tools for intermediaries to use:

- information packs on IiP will be developed alongside a human resources website (www.yourpeoplemanager.com) for use by intermediary organisations. Initially the focus will be on improving skills and management development and on offering assistance to become accredited to the IiP Standard as part of business development;
- local Learning and Skills Councils (LLSCs) are also considering how to involve intermediaries in the Employer Training Pilot. The Government will monitor progress and evaluate initial results of various methods of employer engagement by autumn 2003;
- LSC will expand the use of Laurel Online in support of advice and assessment for IiP to around 90 per cent of the LSC and Business Link networks in England; and
- government will take forward a range of pilot activity as part of the overall strategy of working with intermediaries. This will need to build upon pilot activity currently underway, such as the Business Link West project review of using intermediaries to drive up management development and ongoing Ufi/**learndirect** work with intermediaries.

Individuals

43. Individual and employer demand are clearly linked, both for those who are already in work and for jobless people who are near to the labour market. Employers' decisions about investing in skills will have an impact upon their employees, while independent demand from individuals is likely to reflect perceptions of what employers value, in terms of equipping employees with the right skills to enter the labour market and progress within it. Measures to stimulate demand from individuals will function through employers, but if individuals are not met on their own ground and convinced of the benefit to them of undertaking workforce development activity, the vital component of individual motivation will be lacking. A dual approach – stimulating independent individual demand for development as well employer demand – will achieve maximum impact for a demand-led workforce development system.

Case study: using intermediaries

North Yorkshire LSC is currently running a project offering local organisations the opportunity to train two members of staff as Key Workers. Support and mentoring for Key Workers includes linking training to business objectives and developing skills for training needs analysis and planning. The support is targeted upon charitable and voluntary organisations and leads to NVQ accreditation for the Key Worker and the potential for organisations to commit to IiP within the following 12 months.

Key actions in raising individual demand

The Government will:

- extend the role of learning champions;
- take a more strategic approach to communications and marketing;
- develop an integrated IAG service for adults; and
- link IAG services to the wider workforce development framework.

Promoting the benefits of workforce development by meeting individuals on their own ground

Expanding the role of learning champions

44. Union Learning Representatives are a key element of the Government's drive to instill a learning culture in the workplace. The Government is introducing legislation in the Employment Act 2002 that will give statutory backing to Union Learning Representatives. There are currently over 3,500 union learning representatives and it is estimated that their numbers will increase on a gradual basis to around 22,000 by 2010. They will play a major role in some of the Employer Training Pilot areas, receiving additional training in IAG and basic skills brokerage. IiP UK and the Trades Union Congress (TUC) are also currently considering a programme of training for Union Learning Representatives on how IiP can contribute to individual employees' development.

Case study: Union Learning Fund and the National Union of Teachers (NUT)

With the help of the Union Learning Fund, the NUT has already trained over 2,500 teachers in basic ICT skills by arranging courses in all areas of England. This will rise to over 4,000 next year. The target of the Developing ICT Skills for Teachers project is to establish a training programme through which 3,000 teachers, over a period of two years, will gain competency in basic ICT skills. Participants will be encouraged to be assessed for a nationally recognised qualification.

Case study: employers and unions – a partnership approach

Following a re-organisation of its Humberside factories, Birdseye Walls supported the Springboard project – developing with the GMB a one-day course aimed at giving all employees confidence and ideas for learning. Over 20 Learning Representatives have been trained and the company is supporting employees to learn anything from IT to craft skills and motor maintenance. Work has been done with the local college to provide courses on site to overcome shift pattern difficulties and the company has also opened a number of learning centres. Internal applications for new jobs advertised have approximately trebled over the past two years, as employees' self-confidence has grown.

Case study: learning champions

Cumbria LSC is supporting the development of a network of Learning Advocates in SMEs. The Learning Advocates work towards NVQ accreditation in mentoring and coaching learners in the workplace. Their role is to promote learning to colleagues and peers and provide information and support to access learning opportunities. Evaluation will include an assessment of the impact on workplace skills.

45. Measures are needed to extend the concept of Union Learning Representatives (ULRs) to non-unionised (and predominantly small) workplaces. The Government will therefore pilot a number of approaches to training and learning champions:

- the Small Firms Development Account includes support for a Training Champion within the small firm which has opened an account. The employee is supported in developing guidance skills, including relationship building with colleagues, action planning and overcoming barriers;
- the Laurel Online software, which supports SMEs who wish to work towards the IiP standard on-line, is being developed to include support for Training Champions within SMEs; and
- Jobcentre Plus will quality assure and support the distribution of LSC-developed information material, for use by Learning Champions working with those re-entering employment to ensure they receive advice on access to IAG services.

46. Progress in all of these areas will be drawn together and evaluated by the LSC, with a view to developing a co-ordinated approach to supporting learning champions in non-unionised workplaces. The feasibility of developing a single, recognisable brand – mirroring the profile of union learning services – will be considered.

Ensuring that marketing is co-ordinated and strategic

47. As described above (paragraph 34), government will review the effectiveness of both existing and past communications groups and consider the best way to bring together policy makers with internal marketing experts to secure greater strategic co-ordination to marketing and communications. It will be important to build on previous experience.

48. In order to achieve this, a new, consolidated group will want to consider taking forward activity to:

- segment and analyse the market appropriately to ensure that the right messages are reaching the right people at the right time;
- co-ordinate messages about skills and workforce development, generating a common language where this is deemed necessary;
- ensure that messages about skills and workforce development agenda are coherent across the range of existing marketing campaigns, such as the basic skills campaign, Ufi/**learndirect** marketing activity and others;
- consult with the full range of stakeholders[12] to ensure that the various campaigns underway can be brought together into a consistent overall strategy; and

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[12] These include: the LSC, Ufi/learndirect, the ABSSU, SBS, SSDA/SSCs, QCA, Campaign for Learning, NIACE and others.

- report directly to the joint Ministerial group leading on workforce development (see chapter 5).

Providing relevant and timely information, advice and guidance

49. Individuals need access to effective and high-quality information, advice and, where appropriate, guidance if they are to make best use of opportunities. This needs to be linked into:

- the use of labour market intelligence by frontline providers of IAG;
- clarity about the qualifications system, especially the potential for increased unitisation;
- sources of information on provider quality for consumers; and
- helping to identify and assess basic skills needs, thereby enabling progression.

Developing the IAG infrastructure: a more joined-up system

50. Individuals seek advice from a variety of sources when they are looking for personal development.[13] Provision needs to mirror this approach if it is to be effective. In England, information can currently be sought from the web via Ufi/**learndirect** and is linked to jobs on Worktrain (see paragraph 60). Information and advice are available by phone from Ufi/**learndirect** and face to face from local IAG partnerships and unions. There is a clear need to ensure that the various channels work together effectively to meet users' needs.

51. LSC and Ufi/**learndirect** have carried out a feasibility study with the main focus on better co-ordination between **learndirect** and the local IAG partnerships. In the light of this, the DfES will work with the LSC and Ufi/**learndirect** to develop a national and local IAG service for England that is integrated for the customer and which exploits the potential of the Worktrain service. Some key objectives are:

- establishing a clear, coherent and consistent 'offer' of IAG for the customer;
- better joining-up of national and local services, including incentives for closer joint working, such as shared performance measures;
- greater visibility and accessibility;
- continuous quality improvement, making the best use of new technologies and staff development; and
- clear demonstration of impact.

52. As a part of developing a vision and national strategy for IAG, a national consultation on proposals will be considered.

53. The LSC has been running a one-year development fund, the National and Local IAG Quality Development Fund. The fund has supported a variety of projects, which will be evaluated by July 2003. There are 96 local projects and five overarching national projects. Of the 96 successful local projects, 13 include activity focused on engaging employers, including work to:

- undertake an audit of workforce skill needs;
- map current approaches that employers use in workforce development;
- identify benefits for employers;
- provide supported employer-based information access points;
- develop work with SMEs; and

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[13] MORI research into the effectiveness of IAG services found that individuals prefer having a variety of sources of information and advice available to them.

- produce pocket-sized network directories for employers and union representatives.

54. In support of a longer-term strategy for IAG, the Government needs to understand more about the impact and value of different types of IAG. The DfES, in a joint project with the Guidance Council and other key stakeholders, is working towards establishing a UK national research network for IAG-related issues and the development of a national resource to make UK and international research data more accessible for users. This will build on the telematics platforms developed through the ADAPT[14] project and should be in place during the 2003/04 financial year. To this end, the DfES will also be running a longitudinal study to measure the impact of IAG services on individual adults.

Employers as sources of information and advice

55. Evidence has shown that employers are often an important source for individuals seeking advice about training or career development.[15] To ensure individual confidence, it is important that the information which employees receive from their employers is of high quality, up to date, effectively tied into local provision and impartial.

56. In February this year the DfES Minister for Adult Skills launched the new **matrix** quality standard for IAG services. The standard identifies the essential features of successful development, delivery and management of any IAG service, regardless of context or sector, and provides key indicators by which organisations can measure their current activities. The **matrix** quality mark is awarded to organisations on the basis of assessment by an independent body, the Guidance Accreditation Board. Initial trials with a number of employers are underway in order to assess the impact of **matrix** in the workplace. The outcome of these trials will be available by the end of December 2002. Thereafter, if the case is proved, the standard will be marketed to a wider range of employers, and DfES with the LSC will consider ways of increasing take-up by SMEs. Discussions are also underway with IiP UK to identify the synergy between the two standards.

Some people need more intensive guidance

57. The DfES has been running 20 pilot projects targeting guidance services on priority client groups, including: the low skilled; ethnic minorities; and people in areas of multiple deprivation. Services include outreach and one-to-one guidance provision, basic skills support, mentoring and work through community groups. These will be evaluated by June 2003 and guidance produced by October 2003. As part of their local strategic plans, LLSCs will review the guidance services available in the locality and identify priority client groups requiring more in-depth support.

Guidance for Labour Market entrants

58. Moving into work represents an opportunity for individuals to develop their skills and improve their long-term prospects. IAG about learning can help make the most of this opportunity by allowing people to make informed decisions about their personal development. Therefore, where appropriate, Jobcentre Plus and its providers will signpost individuals to IAG services they can use once they are in work. The LSC, in collaboration with Jobcentre Plus, is currently considering producing materials to provide information on sources of advice about learning for people moving into work. These products

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[14] This project worked towards building a shared knowledge base through the formation of expert groups meeting to discuss issues of policy and practice and continuing their discussions online.

[15] MORI.

could be used by Jobcentre Plus and workplace Learning Champions. Development and feasibility work will be undertaken in early 2003, with any roll-out taking place in 2003/04.

Linking IAG with the wider workforce development framework

Understanding the labour market

59. IAG must be informed by up-to-date labour market intelligence. DWP has a major role in the collection and dissemination of labour market intelligence. Jobcentre Plus is currently carrying out a project with a view to improving the labour market intelligence that can be supplied to employer account managers throughout the Jobcentre Plus network, and to regional partnerships, such as those with RDAs for the work on Frameworks for Regional Employment and Skills Action (FRESAs). Worktrain already provides individuals and advisers with a tool linking training provision and specific job opportunities. The Worktrain for advisers site currently being piloted significantly extends this role.

60. Worktrain provides individuals with a single entry point to access a range of databases providing jobs, learning and career-related information. Job vacancies are linked to specific information on training, and there is labour market information relating to a range of occupations. There are also links to sources of information for employers wishing to post vacancies, recruit and retain staff, or access statistical information on the labour market and skills. The overall objective of Worktrain is to draw together, and add value to, existing sources of information to provide customers with a one-stop shop on the Internet for employment and learning opportunities.

61. Since 10 September 2002, Worktrain has been running a six-month pilot, in West Yorkshire and North Yorkshire, of a new site specifically aimed at advisers. It acts as a portal to a wide variety of sources of information and services, covering various themes, including learning, local maps, transport and labour market information. The site is aimed at all types of advisers, including those in IAG partnerships, Jobcentre Plus advisers and Connexions personal advisers. It is designed in such a way that content can easily and quickly be added or amended. The pilot will run for six months and undergo evaluation by users. Subject to successful outcomes, it will be made available nationally in spring 2003.

62. Drawing all of this work together, and in order to help people make effective use of Labour Market Intelligence (LMI) in their decisions about learning and work, the interdepartmental National IAG Board, which includes key representatives from the DfES, DWP and DTI, will conduct a review to establish:

- what kinds of labour market information clients of IAG services need in order to make effective decisions about learning and work;
- options for accessing appropriate national and local LMI, especially to IAG providers and their clients; and
- what IAG providers and advisers need to help clients make effective use of LMI in their decision-making.

63. This review, which should involve the LMI Champions Group described below, will need to work closely with the SSDA and take account of previous work in this area, such as:

- the DfES ADAPT project, which looked in part at enhancing the use of LMI in vocational guidance;
- the review of LMI held in Jobcentre Plus; and
- the development of the existing LSC Skills and Enterprise Network as a web-based tool available as a resource for IAG partnerships and a more general range of partners to disseminate regional and sectoral intelligence.

... knowing about course quality and outcomes...

64. There is already a wide range of information on quality available to potential customers. The need is to bring it together into an accessible resource of comparable customer quality information. As well as information drawn from national inspection and survey data, this kind of resource could also include peer review of courses and information on subscription levels.

65. The Government will therefore:

- track outcomes of provision, such as employment rates and destinations data. The LSC plans to introduce a new National Destinations Survey. Initial feedback from a feasibility study to identify requirements for destinations data and models for collecting it, is expected in November 2002, and the results of the final report in January 2003; and
- consider the feasibility of making this kind of information available and will explore mechanisms to provide such a resource to individuals. This would be linked to similar information made available to employers via the appropriate routes to market. ALI, working with the LSC, has developed a new, shorter report format which will be used for inspections from April 2003.

Ufi/**learndirect** will produce a prototype diagnostic tool to assist individual decision-making by December 2003.

66. It will be important to link this work with the developments in providing usable LMI to IAG providers so that individuals are able to make fully informed choices.

... and clarifying the qualifications system

67. QCA provides extensive information and guidance to practitioners in England on areas such as interpretation of the curriculum and examination rules. It is, for example, currently taking forward a project to provide open access to the electronic qualifications database managed by QCA on behalf of the regulatory authorities, with the aim of providing an authoritative, user-friendly tool for learners and others for navigating the qualifications system.

68. In line with the quinquennial review of QCA, which advocates a wider, more strategic communications role for the regulator, QCA will also consider its part in ensuring that providers of IAG are kept up to date on developments in the qualifications system. This work will be taken forward in collaboration with DfES, LSC and Ufi/**learndirect**.

Breaking down barriers of time and money for employers and individuals

Testing financial incentives to break down barriers to workforce development...

69. Time and money are consistently cited as significant barriers to participation in workforce development activity, both for individuals and employers. The first PIU report set out a variety of possible approaches to this issue, ranging from promotion and best practice, through financial incentives to statutory approaches. The Employer Training Pilot, announced in

Key actions to break down barriers

The Government will:

- pilot schemes testing a new policy approach to breaking down barriers to workforce development of time and money;
- pilot the concept of a Small Firms Development Account; and
- look at ways of supporting individuals through a variety of mechanisms and conduct a fundamental review of financial support for adult learning.

the pre-Budget report, is a key mechanism for testing a new approach to overcoming time and other barriers to workforce development.

… and promote the integration of skills in business development

70. The Government is also piloting in the East Midlands a Small Firms Development Account. This offers an integrated package of business development with a specific focus on skills and includes a financial incentive in support of workforce development:

- £500 to identify an internal training champion to develop a training and development plan, with the help of an external adviser;
- a discount of 50 per cent per employee up to £150 against the costs of external training; and
- a supporting package of workshops, one-to-one support and membership of a small firm training network.

71. The evidence drawn from these approaches, along with the full range of other pilots highlighted in the action plan, will be brought together to inform government's approach to financial incentives in stimulating demand for workforce development.

Enabling participation by empowering consumers

72. If the Government is to meet its target to reduce the number of adults in the workforce who lack level 2 skills, the participation costs of workforce development need to be tackled. The Government has already announced its commitment to a successor Individual Learning Account (ILA) scheme. The 2002 Spending Review further announced a review of the funding of adult learning. One aspect of the review will be to focus on the wider costs associated with learning and to recommend ways of widening participation by the lowest skilled. We return to these points in the wider context of the funding review and ways in which existing funds can be more effectively channelled to stimulate and meet demand.

73. Jobcentre Plus will continue to work to help people gain the skills they need to participate in the labour market, and, in line with DWP's Public Service Agreement (PSA) target, helping low-skilled people into work will be a priority for Jobcentre Plus. It will work with a number of partners, including DfES and the LSC, to ensure that the Government's strategy to raise the skills of the workforce and to raise the proportion of people with level 2 skills keeps workless people firmly in its sights. It will pursue its aims to ensure that appropriate learning and development opportunities are made

Employer Training Pilot

As announced in Budget 2002, the Employer Training Pilot has been launched in six areas. The pilot is testing a new policy approach designed to overcome the key barriers to workforce development, including the barriers of time and money. This £40 million scheme will provide financial support to employers which give employees 'leave for learning' towards basic skills or level 2 qualifications.

The pilot is running in six LLSC areas: Birmingham and Solihull, Derbyshire, Essex, Greater Manchester, Tyne and Wear, and Wiltshire. These local LSCs have been funded to provide:

- tailored IAG for employers and individuals;
- free courses and assessment up to a level 2 standard; and
- financial support for employers who commit to giving employees paid 'leave for learning' and assessment at a college, with a private training provider or in the workplace, including additional financial incentives for small firms.

The pilots began in September 2002 and are due to finish in August 2003. Impact on individual and employer attitudes and behaviour will be examined, together with measurement of achievement and benefits and lessons for the delivery of such incentive packages. They will provide information about how the policy approach outlined above might impact on raising skills, and will gather evidence which will contribute to the Government's consideration of workforce development policy.

available to the people they will most benefit, to work effectively across government to make sure people know what opportunities are available to them, and to continue to help as many people as possible reap the benefits of sustainable employment. This will include reviewing the use of Jobcentre Plus training budgets as part of a wider Review of Funding of Adult Learning, led by DfES in close collaboration with DWP, to deliver the most effective administrative alignment, in light of the pooled budget arrangements with the LSC and RDAs. As Jobcentre Plus rolls out, this will also include considering any necessary changes to DWP policy, including Jobcentre Plus adviser referral practices, to ensure that Jobcentre Plus makes the most effective use of the level 2 learning opportunities available to low-skilled jobless people, particularly for those seeking a first qualification.

The Government should lead by example as employer and purchaser

... as employer...

74. The public sector is a major employer which needs to play a full role in stimulating demand for workforce development. Like all other employers, the public sector will need support and encouragement to enhance investment in workforce development to improve performance, productivity and job satisfaction. Initiatives are already in place in many areas to improve the quality of the workforce as a route to better performance.

Key action points

- **Full Government commitment to encouraging employees below level 2 to achieve this level, building on the commitment already in place to address basic skills needs.**
- **Benchmarking performance against other employers.**
- **Producing guidance on the potential for building skills development into Government procurement.**

The National Health Service

75. The *HR in the National Health Service Plan,*[16] published in July 2002, had two overarching objectives: a major expansion in staff numbers and a major redesign of jobs. In England, the major components in the strategy for up-skilling the workforce are:

- a new workforce planning and delivery structure focused on the recently created National Workforce Development Board and network of 27 local Workforce Development Confederations;
- a framework for lifelong learning;[17]
- a workforce Skills Escalator strategy;
- the development of consistent competency frameworks and National Occupational Standards;
- in autumn 2003, the launch of NHSU (the NHS University);
- a major programme of reform across pre-registration and post-registration/ undergraduate health professional programmes;
- a major investment programme to underpin the Skills Escalator, through continuous development of professional staff, enabling staff without professional qualifications to access an NHS Learning Account or NVQ training, and through identifying and addressing adult literacy, numeracy and language gaps. The NHSU is exploring plans to offer staff access to foundation degree pathways within five years of their employment; and
- a major review of workforce development funding arrangements.

76. Central Government is already committed to taking action to tackle basic skills needs where they occur. It will further commit to developing its workforce through:

- a continuing commitment to IiP. More than 97 per cent of central Government employees work for departments and agencies with IiP status. It will benchmark performance against other employers, to ensure that best practice is reflected in training and development;
- identifying those in its workforce who have not already reached a level 2 and ensuring that they are encouraged to do so – this might, for example, take the form of help to reach an NVQ2 in ICT skills. Whilst the large majority of central Government employees are already at this level, the Government is committed to developing those who are not;
- setting up accurate and comprehensive data collection systems to help identify the scale of need for development to level 2; and
- considering the case for a target for Modern Apprenticeships in the civil service.

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[16] *HR in the NHS Plan – more staff working differently* (July 2002).
[17] *Working Together, Learning Together – a framework for lifelong learning for the NHS* (November 2001).

Developing the armed forces

The Ministry of Defence (MOD) has demonstrated a strong commitment to workforce development for both military and MOD Civil Service personnel, regarding it as an effective incentive for recruitment and retention, as well as the essential means of generating the required competencies. It furnishes Service personnel with significant transferable skills for the ultimate transition back into civilian employment. As part of its ongoing training programme, the MOD sponsors personnel for qualifications and awards for which it seeks external accreditation within the National Qualifications Framework. These include Modern Apprenticeships (11,380 in 2001/02), National Vocational Qualifications (31,241 in 2001/02), In-Service, Foundation, full Honours and Post-Graduate degrees (629 in 2001/02). A wide range of NVQs is delivered via Service and MOD Civil Service Approved Learning Centres. To co-ordinate the above activities, the MOD has recently established the Defence Accreditation Cell that is advised by a Defence Accreditation Board made up jointly from MOD, other government departments and non-governmental bodies. The MOD is also committed to improving the basic literacy, numeracy and fundamental ICT user skills of its personnel, introducing mandatory Basic Skills screening and assessment for all new entrants to the Department, applying nationally identifiable standards and providing the opportunity for follow-up developmental learning.

In addition, the MOD is strongly committed to lifelong learning and encourages its personnel to seek learning and qualifications on their own behalf. A number of tools have also been introduced to help, including a Personal Development Record issued to all, which documents education, training, experience and qualifications already gained and provides a means of planning future career and personal development. As a strong incentive to personal development, MOD civilians can claim a minimum of 80 per cent of the cost of agreed further education courses and Service personnel can access £175 per year for a wide range of learning, training and developmental courses through the Standard Learning Credit Scheme. The Department will shortly be introducing an Enhanced Learning Credit Scheme, enabling Service personnel to access funding for further or higher education either whilst still serving or for a period of up to 10 years after leaving the Service.

Basic skills in the public sector

Public sector employees are one of the identified priority groups of the Skills for Life strategy. It is estimated that there are 1.3 million public sector employees with basic skills needs. In December 2000, the Cabinet Secretary wrote to all departments, asking them to commit to improving the literacy and numeracy skills of their staff. All departments had committed to this by June 2001 and by July 2002 had action plans in place to implement this commitment. The Adult Basic Skills Strategy Unit (ABSSU) is working with the Central Government National Training Organisation, based in the Cabinet Office, to assist departments with their work in this area.

Further work is underway with non-departmental public bodies and agencies to ensure that they too embed basic skills in training and development plans for their staff, and the National Support Project is progressing the basic skills agenda at the local level. In addition, departments and other public sector bodies are being encouraged to extend the basic skills training opportunities available to their own staff to contracted-in staff working on site.

... and as purchaser

77. The scope for Government to encourage workforce development by contractors and through the supply chain is limited by overarching value for money and EU requirements. However, skills are often a key element in ensuring that the service provided is of the requisite quality. ABSSU is working with the Treasury and Office of Government Commerce to explore the ways in which the Government might use its role as purchaser to promote improved basic skills amongst contractors' employees. A report and guidance for departments will be available by the end of the year. For wider workforce skills, the Government will build on this work in exploring three areas:

- the scope for Government to encourage contractors collectively to place more emphasis on their own responsibility for developing their staff via the promotional material sent out with the Invitation to Tender documents (although it must not be included in the election and award criteria for the contract);
- the extent to which workforce development can be linked in a legitimate way with the subject of a contract and the scope for this to be reflected at each stage of the procurement process – for instance the skills and training of the workforce can be legitimate factors in assessing the technical capacity of the potential contractor to perform the contract (in selecting staff to service a contract if the technical capacity to do a job can be defined in terms of specific skills); and
- the scope for Government to work with the individual contractor, after the contract is awarded, in partnership over the duration of the contract, to encourage the pursuit of workforce development through the careful dissemination of good practice, which may improve their performance and, therefore, enhance their business or opportunities for future contracts. This must, however, be cost neutral or voluntary.

78. The Government will therefore draft a note by April 2003, taking account of advice from the Office of Government Commerce and from the experience of the ABSSU, for publication on a website that is easily accessible to all departments, and encouraging departments to share relevant experience.

Meeting demand with high-quality provision

79. Raising demand for skills must be underpinned by a supply side which can deliver what is needed when it is needed flexibly and to a high standard. That implies a funding system which incentivises the outcomes sought. It means a need to recognise the high-quality development delivered by many providers, along with the need to improve quality in others. And it means building the capacity of the sector – public, private or voluntary – to deliver in future with particular regard to the potential of new technologies.

Improving supply: enabling supply to be more responsive to demand, focusing efforts on funding mechanisms which promote flexibility and employer engagement, improving quality, rewarding innovation and encouraging diversity in the provider market.

Achieved through:

- changes to the funding system:
  - reviewing how adult learning is funded;
  - devolving flexible purchasing power locally, regionally and by sector; and
  - empowering the consumer.
- improving quality:
  - a strategy for reforming the further education and training sector.
- building capacity:
  - diversifying the supply side; and
  - supporting the use of new technology.

Key actions to improve supply

The Government will:

- move to more devolved purchasing power;
- pilot regional pooled budgets;
- review funding of adult learning;
- test approaches to consumer purchasing power;
- consult on and implement the Success for All strategy for reform in FE;
- review current capacity and offer opportunities for capacity building; and
- deliver a vision and strategy for e-learning.

Changes to the funding system

80. FE colleges are central to the delivery of workforce development. They provide a reservoir of experience, ability and potential to innovate at local level which must be placed at the heart of workforce development policy. Their funding system needs over time to unlock this potential, to give the sector room to explore and raise demand from individuals and businesses, and to be able to innovate and respond to that demand. It needs to recognise equally the contribution of the private and voluntary sector. Workforce development is not a marginal extra: it is central to what colleges and the LSC do, particularly for the over-19s. Over time it has the potential to lever substantial extra resources into the learning and skills sector.

81. The 2002 Spending Review announced a range of measures which will have a significant impact on the current funding systems which support the supply of workforce development opportunities:

Review of funding for adult learning

The July 2002 Spending Review contained a commitment to review the funding of adult learning, focusing on the whole of the LSC's post-19 budget and taking account of resources from elsewhere, notably the private sector. This too reflects the analysis of the first workforce development study, in wanting to look in more detail at the way in which public funds are used to support adult learning and skills, in order to maximise the benefit for individuals and employers.

The review will look at how the Government's various funding mechanisms for learning could be more effectively deployed, to:

- provide incentives to employers to engage in training, as part of their business development strategy;
- cause institutions to be responsive to the needs of individuals and employers, building their capacity to work with employers;
- widen participation in learning by the low skilled, including reviewing the forms of support available to adults to help meet the costs of learning; and
- enable RDAs to play their full and effective role in developing and implementing regional skills strategies (linking with the RDA/LSC funding pilots described in paragraph 86 below).

The DWP will participate in the review to help ensure that the appropriate balance of financial support is available to low-skilled people in and out of work.

The Government will publish a skills strategy in the spring, reflecting the development of a demand-led workforce development strategy and including emerging proposals from the funding review. It will consult widely on the strategy with employers and other key stakeholders. Implementation of the proposals will begin in April 2004.

- a 1 per cent increase in core funding for FE colleges aligned with a strategy for quality improvement;
- 3-year budgets and 100 per cent end-year flexibility for LLSCs;
- fundamental review of the funding of adult learning to look at better incentives and to encourage institutions to be more responsive to private, public and voluntary sector employer needs; and
- explore the potential funding role of RDAs through piloting regional pooled budgets.

Devolving flexible purchasing power

Locally…

82. A significant move towards the demand-led system comes from the positioning of the LSC as an intelligent purchaser locally. LLSCs have a vital role to play in ensuring that there is sufficient breadth of provision to meet the needs of employers and individuals and to deliver local skill priorities. Some providers may discontinue offering some provision where others are better placed to do so, and there may also be increased specialisation and new forms of cross-provider collaboration.

83. That implies a degree of flexibility in the funding and purchasing decisions the LSC is able to make. It needs to be able to use funding to purchase the right quality and quantity of provision, and to incentivise greater responsiveness to demand among providers. It needs in particular to be able to work more closely with employers, to engage them in the development agenda, to discover and reflect their needs and to make provision which delivers the right skills at the right time, moving over time towards a more demand-led system. The new funding flexibilities announced in the Spending Review are a first step in this direction.

84. In tandem with these new flexibilities the LSC will run pilots experimenting with different models aimed at introducing discretion, transparency and a greater focus on demand into the current funding system:

- The LSC is working with the Learning and Skills Development Agency (LSDA) to evaluate the impact on learners and other stakeholders of an initiative to make the costs of learning more transparent. In a small number of pilot areas learners on a range of programmes will be given detailed information about the true costs of their programmes in addition to the fee that they have to pay. The research will seek to assess the impact that this information might have on their attitudes and behaviour, and on the responses of other stakeholders. The pilot will run from August 2002 to September 2003.

… regionally…

- One outcome of the July 2002 Spending Review was a commitment to pilot the pooling of budgets for adult learning and skills between RDAs and the LSC. This is a direct consequence of the analysis in the first workforce development report, which identified the need to increase the responsiveness of the supply of skills to demand from employers – both now and in the future. The pilots are designed to create a direct link between what the RDA knows about skill needs, sector priorities, economic trends and business development activity in its region and the capacity of the LLSC to secure responsive supply of skills, qualifications and business support.

Case study: The Sussex business college project

Sussex LSC is currently working with the LSDA to develop the concept of a Business College to make provision more responsive to employer and workforce demand. The intention is to go further than the notion of a business unit within a college to a more all-embracing business-focused mission for the organisation. Key principles underlying this model are:

- to move to a situation in which providers develop provision to meet contemporary needs of the economy, rather than increasing their marketing to sell more provision; and
- to develop products, services and solutions for business, as well as courses, seminars and learning, which are driven by business strategies and objectives, rather than the traditional inventory-driven approach, where what is on offer largely depends on what has always been provided.

The pilot project involves an initial research and development stage, which defines what a business college should look like and maps this against existing practices in two trailblazer colleges in the area. These colleges will then lead the way for further development and engage in dissemination with their peers in the Sussex LSC area. Emerging thinking has identified a range of desirable features within a business college, including research and development and support networks for SMEs. A final report will appear in February 2003.

Case study: Demand-led funding in the North-East

In the North-East, the LSC is testing a model which seeks to give increased purchasing power to the employer as a customer.

Working with local FE colleges such as Sunderland, the project will explore approaches to removing barriers to more responsive provision. This will include considering the opportunities and consequences of:

- pursuing an outcome-related approach to funding, based on significant incentives for meeting employer needs for high-quality training and certification;
- assessing the value of existing subsidised training and reallocating it to meet employers' needs more effectively;
- encouraging direct employer engagement in course planning and delivery;
- reducing unit costs to the LSC and employers but still maintaining excellence of provision, by matching the two funding streams better; and
- enabling employers to make much fuller use of publicly subsidised, quality-assured provision leading to transferable qualifications.

... and by sector

85. There is a case for giving SSCs more direct influence over purchasing decisions in workforce development. The SSDA/SSC network has as one of its strategic objectives the improvement of supply responsiveness and has a role in the design of occupational standards, which are fundamental to the existing funding system. As employer-led bodies, the SSCs have the potential to articulate employer demand, whether in the public, private or voluntary sector, in the provider market.

86. The SSDA and RDAs are already working together, particularly in the development of FRESAs. The SSDA and SSCs are key partners to the LSC programme of sector pilots. The Government will consider the role of the Skills for Business network in the regional pooled-budgets pilots. The precise role will need to be developed as the specification of the pilots is agreed, and as the business planning in the pilot regions takes shape later this year, but the pilots clearly offer an opportunity for employers working through the Skills for Business network to secure and influence supply that better meets their needs.

Empowering consumers

87. The increasing devolution of purchasing power to local, regional and sectoral level can be supplemented through mechanisms that enable employers and individuals to exercise demand more directly. We have referred above to the way in which using funding to empower consumers could stimulate and meet demand. Government is already piloting approaches in this area, which the review of funding will want to evaluate carefully.

88. *For employers*, this approach consists mainly of the Small Firms Development Account and the Employer Training Pilot described above. The LSC is also currently working with a major high street bank to consider the feasibility of developing added value to their business services for SMEs. Discussions are at an early stage, but this may include piloting of company accounts, provision of information and advice signposting and links to business skills training, particularly ICT and the Internet. The purpose will be to set up a 'seamless' service which co-ordinates different initiatives. In the first instance, the purpose of this work will be to test out with relevant partners the feasibility of such mechanisms rather than encourage take-up of accounts. Initial feasibility work will begin in 2003.

89. *For individuals*, the Government is committed to introducing a successor scheme which will build on lessons learned from the Individual Learning Account (ILA) programme while maintaining the principle of giving learners more control over when and how they wish to engage in development.

90. The Government will develop the successor scheme in the context of the Review of Funding for Adult Learning and consider using the mechanism to tackle other workforce development priorities underpinned by a system of accreditation and financial and performance controls.

91. In tandem with this programme the LSC is considering the feasibility of piloting 'real' account models which lever in contributions from individuals, employers, government, communities, etc, with the intention of empowering consumers. These models will have the potential to draw together employer and individual demand into a partnership approach. The purpose of this work will be to test out with relevant partners the feasibility of such mechanisms rather than encourage take-up of accounts.

92. Possible mechanisms may include:

- individual accounts, in which employees save into an individual savings account held by a bank or credit union to maintain skill levels for employability;
- individual loan accounts, which fund individual loans for learning with specific providers;
- competence insurance accounts, managed by a financial institution with major clients and supply chains; and
- company accounts, building on the SFDA, that are set up for staff into which they save with contributions matched by their employer. IAG for employers and employees would be an integral component.

93. In developing these proposals the LSC will draw on the research and experience undertaken in the design of the ILA scheme and the SFDA. Evaluation of all these models will need to feed into the funding review.

Improving the quality of workforce development provision

A national strategy for quality improvement

94. Improving quality is central to making supply more responsive to consumer demand. The DfES has recently launched a strategy for the reform of the further education sector. The Success for All strategy seeks views on a range of proposals to raise the standards of provision in the post-16 learning and skills sector. A final report (dependent on the 2002 Spending Review outcomes) setting out the way forward will form the cornerstone of the Government's strategy to raise the quality of provision across England.

95. The Success for All strategy addresses a number of the key issues around quality which were raised in the first PIU report. Although the strategy focuses on post-16 providers funded by the LSC, Jobcentre Plus offices will be consulted and kept informed of any changes being made which could affect their relationship with other work-based learning providers.

Enhancing the quality and qualifications of staff

96. There will be a new emphasis on improving the skills of the learning and skills sector workforce, building on the Standards Fund. All new FE teachers must now be professionally qualified and mechanisms are in place to encourage existing teachers to become qualified. A framework of standards for work-based learning trainers has also been developed, which has led to a range of qualifications from levels 3 to 5. A DfES-led working party is considering the possibility of making appropriate qualifications a contractual requirement for staff in training providers contracted to the LSC. Eligibility for support from the Standards Fund was extended to work-based learning providers in 2001/02 and is being further extended to all LSC-funded sectors in 2002/03.[18]

97. A new national leadership college for the sector will open in 2003. The college will provide a centre of excellence for managers and leaders across the learning and skills sector, including induction courses for college principals, and programmes for managers from work-based learning providers.

98. Strong industrial and technological knowledge will be crucial for the sector's credibility, and staff will need to further develop links with local business and experience where appropriate. There will be encouragement for more industrial secondments for teachers and trainers and

[18] This excludes school sixth forms that have access to the School Standards Fund.

Delivering higher quality

The Success for All strategy has four main strands, as outlined below.

- The LSC has developed its Quality Improvement Strategy, which aims to improve the quality of all LSC-funded provision through provider self-assessment, 6-monthly provider reviews and institutional performance targets. Consistent with this, the LSC will work with key stakeholders and lead on delivering the following two strands of Success for All:

(i) Meeting needs, improving choice:

- LLSCs conducting comprehensive strategic area reviews of provision, which they fund with the aim of ensuring that a wide range of excellent provision is available to meet the needs of learners, employers and communities.

(ii) Developing a framework for quality and success:

- improving quality of provision through increased investment, institutional improvement targets, floor targets for success rates, and recognising and rewarding excellence through greater autonomy and flexibility.

- The new Standards Unit within DfES will lead on the other two strands of the Success for All strategy:

(iii) Putting teaching and learning at the heart of what we do:

- identifying and disseminating best pedagogic practices.

(iv) Developing the teachers and leaders of the future:

- taking forward implementation of the proposed leadership college for the sector and implementing a programme to increase professionalisation of the workforce by ensuring qualified teachers and trainers through continuous professional development.

The ALI and the Office for Standards in Education (Ofsted) will remain jointly responsible for inspection of the quality and performance of FE and training provision. Both inspectorates, with the LSC, will also continue to be involved in post-inspection support, follow-up, and checking providers' progress on implementing post-inspection action plans where provision has been assessed as weak and where re-inspection is required.

for more people from industry to enter the sector. The ways in which this can be done will be discussed with the LSC.

Developing success measures and performance indicators

99. Colleges' and work-based providers' self-assessment/development plans need to set out clearly their mission, their quality improvement targets and their responsiveness to local employers and skill needs and to the needs of their communities.

100. The LSC, working with the ALI and Ofsted, will develop benchmarking and baseline performance data for all types of provision, including colleges and work-based learning providers, and will discuss and agree

Case study: developing e-learning professionals

Ufi/**learndirect** is working in partnership with the Employment National Training Organisation (ENTO) and has developed standards with linked qualifications for professionals working in the area of the provision of adult e-learning. The development of the qualifications at levels 3 and 4 is in conjunction with awarding bodies such as City & Guilds focusing on both e-learning support and delivery. These qualifications will have wider relevance to many other educational organisations involved in adult learning provision using new technologies.

improvement targets. Success for All proposes success rates, based on learners' retention, achievements and outcomes, as the basis for floor and improvement targets for providers. It is proposed that these should clearly define the minimum levels of performance and the improvements expected.

101. These success rates will support the LSC's local and national targets and take account of current local performance and national benchmarking data. The LSC will also work with key partners to develop value-added measures, including for provision where there are no qualification outcomes, as well as performance indicators and targets around employer and learner satisfaction.

102. Progress should be reviewed as part of regular performance reviews of providers, and where performance is unacceptably poor or where minimum performance levels are not being met, the LSC will take appropriate action in line with its intervention strategy. This process will also identify the best-performing providers in the sector.

103. The DfES and the LSC are currently discussing the use, definitions and consistency of success measures with key partners. The targets should not adversely distort behaviour, or sacrifice quality or access to learning.

104. The DfES has also established a Management Information (MI) group involving key partners from over 15 organisations,[19] to support and encourage a more effective and co-ordinated approach to the management and handling of data and information relating to learners and providers. The group has agreed a programme of work to map current MI arrangements and agree an action plan aimed at rationalising data collection through better sharing and use of information.

105. The DWP controls the standard of its own work-based learning providers through rigorous contract management. Since April 2002 this provision has also been inspected by the ALI, with a focus on driving up provider performance through a continuous improvement strategy.

106. The DfES has established a forum for communicating with LSC-funded providers, which includes representatives of providers that also contract to deliver DWP/Jobcentre Plus programmes, as well as a representative of DWP/Jobcentre Plus. Regular meetings are held to discuss issues of common interest. These will include the implications of actions proposed in Success for All for providers who work with the LSC and DWP/Jobcentre Plus.

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[19] Organisations include the LSC, Connexions, RDAs, ALI, Ofsted, HEFCE, LGA and QCA.

107. A cross-departmental project based in the DfES, called Getting the Best from Each Other, is developing a number of interventions to minimise the bureaucracy involved in the contracting, delivery and monitoring of post-16 learning, training and community programmes – and, crucially, to raise the standard of delivery. This project has developed concordats for the sharing of information between inspection bodies, and is seeking to harmonise procedures and processes such as approved/registered provider systems, funding mechanisms and inspection regimes.

108. Getting the Best from Each Other is also leading current Government thinking around the provision of information about funding streams to providers, paying for distance travelled by clients, improving consultation with providers and the so-called 'passporting' of management information between government agencies. All of these interventions and projects (about which more can be found at www.dfes.gov.uk/gettingthebest) are intended to 'improve delivery and maximise the life-chances of our citizens by focusing on outcomes, raising standards and better procurement'. Guidance documents are expected to be published by April 2003.

Promoting excellence and responsiveness

Centres of Vocational Excellence

109. Centres of Vocational Excellence (CoVEs) aim to enhance existing training and develop new, high-quality vocational training that is focused on meeting the priority and intermediate (level 3) skills needs of employers across a range of industries. Sixteen pathfinders came on stream in September 2001. Another 69 CoVEs started work in April 2002 and 53 in October. Government funding of £140 million has been made available to develop 250 CoVEs (200 in colleges and 50 in work-based learning providers) by March 2004. This includes £40 million from the Treasury Capital Modernisation Fund (CMF).

110. In May 2002, the Government confirmed that work-based learning providers can participate in the CoVE programme. These include private and voluntary sector providers, the training arms of large companies and group training associations. Five pathfinders came on stream in May 2002 and 14 work-based learning provider CoVEs were announced by the LSC in September 2002.

111. The LSC has completed an independent evaluation of the pathfinder CoVEs and has used this to establish robust performance criteria to allow providers and local LSCs to monitor progress, as well as an evaluation framework for the main programme. The SSDA, SSCs and RDAs will work with the LSC to identify sectoral and regional gaps in provision to inform future development of the programme. Evaluation will start in early 2003, with the first findings available in November 2003 to feed into further development of the programme.

112. The DfES, the LSC and the HEFCE will continue to work closely with other stakeholders to ensure coherence between CoVEs, New Technology Institutes, Ufi/**learndirect**, university innovation centres and the Manufacturing Advisory Service at national, regional and local levels. This coherence will be kept under review as part of the evaluation of these initiatives.

Learning and Skills Beacon Status

113. The Learning and Skills Beacon Status for outstanding education and training has been introduced and the first awards have

been made to colleges and work-based providers. These beacons will be expected to share their good practice with others in the sector and to participate in collaborative activities.

114. The benefits are an enhanced profile and status for colleges and other providers, together with funding to support dissemination activity. Other benefits, linked to earned autonomy, and possibly including less frequent or lighter-touch inspections, are currently being discussed by the DfES, the LSC and all key partners and stakeholders.

115. The Government will review the Learning and Skills Beacon Status after one year to ensure that it continues to challenge colleges and other providers and is relevant to the other types of provision undertaken by the sector. This review will also consider how the award ties in with other reward programmes.

116. The DfES review of Learning and Skills Beacon Status, and the LSC's development of recognition and reward for top performers, will take account of the wider Success for All goals, as well as the outcomes of the Bureaucracy Busting Task Force report.

Building workforce development provider capacity

Diversifying the supply side

117. As a demand-led system takes shape, the variety of the supply side and its ability to innovate can be expected to grow and improve. Over time there will be greater diversity of provision and providers, with a growing role for the private and voluntary sector alongside the publicly funded sector. New possibilities will open up increasingly through e-learning, which has the potential to improve the accessibility, affordability and flexibility of development and the way in which it is delivered and assessed. The work of Ufi/**learndirect** is already demonstrating how new technology can transform the ability to meet the needs of employers and individuals.

Reviewing current capacity

118. In the short term the Government will take a number of steps to encourage diversity of provision and enable capacity building in alternative providers, based around the LSC's core remit to plan and implement the right kind of local provision. This may mean discontinuing provision where there is duplication, specialising in certain areas or focusing on particular needs or client groups. It will also mean collaborating with other providers, seeking new providers and encouraging providers from the voluntary, community and private sectors, including employers themselves.

119. As a first step each LLSC will carry out a strategic area review to shape purchasing decisions for the future. Guidance for these is currently being produced and will be consulted on before being issued in March 2003. It is expected that strategic area reviews will commence in spring 2003.

120. In addition, those LSCs engaged in the Employer Training Pilot (ETP) are undertaking capacity reviews of basic skills provision. This information is being fed into capacity-building strategies.

Providing opportunities for capacity-building

121. The Strategic Area Reviews will be supported by specific opportunities for capacity building:

- spread of good practice in workforce development through dissemination and collaborative activities; and

- capital investment. Annual investment in infrastructure, IT and other equipment and vocational specialisms is available to FE colleges, comprising £180 million in 2002/03 and £250 million in 2003/04. Resources are available for non-public sector providers through the CoVE programme.

122. Jobcentre Plus is also setting up a provider liaison group, one of whose aims will be to help build the capacity of the provider network, including sharing good practice, networking and technical support.

Supporting the use of new information and communications technology

123. ICT skills have a role in providing access to further development through e-learning activity, which offers a quick, accessible, flexible and cost-effective route to maintaining and developing a wide range of other skills. As technology advances, more learning will be available online and through different media such as digital TV. Individuals and their employers need to obtain skills to exploit this changing environment and providers need to have the capacity to deliver workforce development in this context. Employers and employees may be attracted by the potential that e-learning offers for learning in the workplace. Whether e-learning is the right approach should be decided by individuals and businesses on the basis of value for money and the fast-changing nature of both learning needs and ICT.

124. The Government recognises that ICT skills are also becoming increasingly critical in the workplace, with 90 per cent of new jobs and 60 per cent of existing jobs requiring basic ICT skills. ICT skills are also increasingly crucial for social inclusion. A key priority is to ensure that the same quality and standards of learning provision that now apply to literacy and numeracy can be applied to the ICT teaching and learning infrastructure.

125. The DfES is responsible for implementing the delivery of an e-learning framework across the whole of the learning and skills sector. This will lead to:

- agreement on the vision for post-16 e-learning;
- a map of what is currently in place;
- agreement on the definition of ICT as a basic skill; and
- agreement on the way forward.

126. A DfES/LSC joint implementation group will progress this framework, responding to the recommendations of Get On With IT: The Post-16 E-learning Strategy Task Force, and the LSC Distributed and Electronic Learning Group Report.

127. College Online will play an instrumental role in establishing ways in which technology can add value across the wider post-16 sector, including exploring links to employers. A feasibility study is being conducted and a report prepared to inform the strategy for widening and increasing the availability of high-quality online learning materials across educational sectors.

128. The ALI's remit to inspect all education and training for those aged 19 and over includes e-learning of all types. ALI also currently inspects all **learndirect** provision. The DfES is considering the most appropriate way to address the issue of quality certification for non-publicly funded e-learning.

129. As part of its work on ICT interoperability standards,[20] the Office of the e-Envoy, together with DfES, is consulting with other parts of government and industry representatives on the appropriate e-learning technical standards to be adopted to support the e-Government Strategy. When agreed, these standards will be included in the e-Government Interoperability Framework (e-GIF) and become the mandatory standards for use by all parts of the public sector. These are based on open, international standards and therefore provide a useful model for the private sector.

Developing a government framework to support workforce development

130. Establishing the right government framework for the transition to a demand-led system will be crucial for the effective management and implementation of change. A lack of clarity around who is responsible for delivering workforce development has been identified as a significant failing of the current system, underlined by the recent report by the Better Regulation Taskforce.[21] To avoid confusing the consumer, clear accountabilities and ways of working in partnership across all bodies need to be developed.

Developing a government framework

Providing a flexible government and institutional framework that supports the development of innovative firms, multi-skilled workers, and healthy local and regional economies and labour markets.

Achieved through:

- establishing clear accountabilities:
  - at national, regional and local level.
- using Labour Market Intelligence (LMI) in a more strategic way:
  - taking a joint approach to the collection, dissemination and use of LMI.
- putting in place a more flexible and responsive qualifications system:
  - reviewing the systems of content development, accreditation and mapping;
  - opening up opportunities for unit and credit-based approaches; and
  - harnessing the capacity of new technology.
- considering the role of statutory support and regulation:
  - responding to demand from industry; and
  - exploring the impact of regulation on skills.

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[20] Interoperability standards are technical standards established to ensure that content can be used in different systems without incompatibility issues arising.

[21] *Local delivery of central policy*, Better Regulation Task Force, July 2002.

Key actions to develop the right government framework

The Government will:

- consider the case for developing a cross-departmental PSA target for workforce development;
- pilot pooled budget approaches at regional level;
- encourage partnership working at local level;
- develop an inter-agency programme of work for a more strategic approach to LMI;
- review and reform – in co-operation with the devolved administrations – parts of the system which govern vocational qualifications;
- drive forward the use of unitised qualifications and consider the case for introducing credits to the system;
- offer support to sectors that identify the need for a statutory framework for training; and
- further investigate the impact of employment and other regulation on skills.

Establishing clear accountability for workforce development

131. There is scope at all levels for the Government to unify its objectives and establish clear lines of accountability for achieving those outcomes.

Nationally...

132. At national level government departments will work together to agree a comprehensive vision for workforce development and will examine the potential for a joint PSA in this area based on the existing PSA targets. The Government will consider the case for putting a joint proposal to the next Spending Review, recognising that the targets are inter-related. Adult workforce development will become a responsibility explicitly shared by the central government departments that have a key interest: the DfES, the DTI and the DWP. These arrangements are discussed in more detail in chapter 5.

... regionally...

133. At the regional level RDAs have already drawn up Frameworks for Regional Employment and Skills Action (FRESAs). FRESAs are drawn up by a Regional Employment and Skills Forum, made up of the RDA, LLSCs, Jobcentre Plus offices, local authorities, employers, unions and the relevant government office. The plans will contain both a detailed labour market analysis and an action plan. The first plans will be produced in October 2002, and the Government will jointly assess them as part of the ongoing process to enable regions to establish their priorities and give stakeholders a forum for communication and co-ordinated action. Further development of FRESAs will now also include the new Skills for Business network to ensure sector skills priorities are properly acted on at regional and local level.

134. As described above the Government will build on these by setting up pilots in one or two regions whereby budgets are pooled among LLSCs and RDAs and co-ordinated in

partnership. These will be operational from April 2003 and will be evaluated in 2005. Jobcentre Plus will be actively involved from 2004/05. The potential for links to the corresponding pilots between RDAs and Business Link organisations will be explored.

135. The pilots will take as their starting point new FRESAs, which draw together the partners, under the lead of the RDA, to identify regional economic needs. The pilots will use the FRESAs as a basis for the RDA and the LSC to agree a single, co-ordinated programme of action, which they will jointly fund, to tackle skills needs. RDA funds for skills and business development will be brought together with LSC funds for adult skills (in both cases covering funds for ongoing mainstream activities and relevant development funds) so that the joint funds can be deployed in a way which maximises the impact of the FRESA. This joint action programme will not be limited to meeting skills in the here and now. It is a joint programme to build the infrastructure for the future which integrates demand and supply.

136. The action plan will cover:

- targets for skill supply, by volume, level and sector, and targets for business engagement and business development;
- purchase of training places from colleges and workplace providers;
- development of the training infrastructure where needed (for example, through establishment of a new CoVE). To get maximum benefit from the pilots, we should not just be aligning current supply with current demand, but seeking to develop the infrastructure by using relevant RDA and LSC funds to optimise the alignment for the future as well by raising both demand and supply;
- business support and development activity to promote employer engagement, staff release for training, and demand for higher level skills, and wider promotion of the innovation and business start-up agenda;
- development of the RDA sector priority infrastructure (for example through clusters or work with the relevant SSC);
- targeted SME business development support through Business Link organisations, benchmarking and good practice networks, the SFDA pilot and the IiP small firms programme;
- use of European Social Fund (ESF) funds to support skill priorities identified in the FRESA; and
- progress towards the adult level 2 and adult basic skills PSA targets.

137. The regional implementation plan will cascade to inform each LLSC strategic plan. Those plans would require input from, and agreement of, the RDA to ensure they are consistent with the agreed FRESA implementation plan.

138. Discussions are in train between the DfES, DTI, RDAs and LSC to identify which regions should participate, and how the pilots should be structured. To ensure that those out of work also benefit from this strategic approach, the DWP will participate in the pilots as they develop, with a view to Jobcentre Plus becoming actively involved in the pooling of budgets and joint planning activities from 2004/05.

... and locally

139. These plans will need to be reflected at local level, and there will need to be constant iteration between the regional and the local. There is already much good practice to build on and the process will be supported by the

LSC Workforce Development Strategy implemented at local level through LSC Local Strategic Plans.

140. The National Employment Panel's Skills Advisory Board is already overseeing a project to increase collaboration between Jobcentre Plus districts and the LLSCs. Areas include:

- employer marketing and communications;
- co-ordinated planning and delivery of basic and sector skills;
- progression routes from benefit into work-based learning and career advancement; and
- performance monitoring and capacity building of shared providers.

141. Initial findings from this work will be available in early 2003 and will need to feed into other work in this area.

Using Labour Market Intelligence more strategically

142. It is essential that Labour Market Intelligence (LMI) is turned into intelligence which informs all parts of the workforce development system: IAG, the development of qualifications and the funding system, to name but three.

143. The Government has established the Partnership Agreement on Skills and Economic Intelligence, which it developed in conjunction with a number of stakeholder agencies. The agreement sets out principles that should underpin improved collaboration on the collection, use and dissemination of LMI.

144. The Government has also subsequently established an inter-agency Champions Group to support and promote the principles outlined in the partnership agreement. It includes key departments of central government, the Learning and Skills Council, Sector Skills Development Agency, Regional Observatories and representatives of the RDA and Government Office Networks.

145. As well as providing the momentum to implement the objectives of the Partnership Agreement, the Champions Group will take a practical look at some specific issues and areas for joint working. The group is currently developing a collaborative approach to employer surveys, examining the scope to align the needs of the LSC, SSDA, RDAs and DfES and DWP in particular. Another likely area for early action is projections of employment, again to meet the varied needs of a number of parties to the agreement. In more general terms, the group will have an important role in considering the interplay of arrangements at regional, local and sectoral levels, including, for example, the work of the new FRESAs and the development of the LMI role in the SSCs. As described above the National IAG Board will examine the links between LMI and IAG.

146. A full workplan will be established at the end of October 2002, with a review of progress at the end of summer 2003.

Putting in place a more flexible and responsive qualifications system

147. As highlighted in our first report workforce development encapsulates a wide range of training and development activities, including informal learning and cultural and organisational development undertaken within the workplace which is not always externally accredited. Qualifications are a significant part of the basis for government funding within the current system, but may not always be the best way to meet employers' needs. There can also be a tension between the needs of individuals

Principles of the Partnership Agreement on Skills and Economic Intelligence

- Where there are potential overlaps in the system, there should be joint action on research planning, data collection, analysis and dissemination.
- Common definitions, standards and methodologies should be adopted by all agencies in respect of a core set of indicators on skills and economic intelligence.
- It should be possible for data to be aggregated across certain key sections of the skills and economic intelligence system.
- Key agencies should work together to identify significant gaps in intelligence and which agency (or agencies) should take action to plug them.
- Key agencies should work together to minimise the degree of unnecessary duplication of data.
- Research planning cycles should aim to operate with a long-term view of around 3–5 years.
- There should be improved analysis and better use of intelligence to ensure that it meets the needs of policy makers, planners and other key users.
- Where possible there should be open, zero cost access to intelligence between the parties to the agreement.
- The agreement should be regularly reviewed to enable an assessment of the degree to which the principles are being met, and there should be an evaluation of its impact.

and employers. The role of the Government is to ensure that the system balances the twin needs of responsiveness and integrity, enabling appropriate input from employers of all sizes, allowing swift calibration of awards to changes in workplace requirements and encouraging recognition of smaller chunks of training and development.

148. The first PIU report highlighted the significant progress that has been made through the introduction of the National Qualifications Framework (which spans England, Wales and Northern Ireland) in raising quality and increasing coherence of the vocational qualifications system. Further development of the framework needs to allow flexibility and responsiveness, while providing the quality assurance that gives nationally recognised qualifications their currency.

149. Bearing these priorities in mind, and in line with the recommendations emerging from stage one of the quinquennial review of the Qualifications and Curriculum Authority, the Government will take forward five particular areas of reform to build on success so far. The UK-wide nature of the sector skills network and of the process by which National Occupational Standards (NOSs) are developed and approved means that these recommendations will need to be taken forward in close collaboration with policy bodies and the regulatory authorities in the devolved administrations.

Reviewing the systems

Content development…

150. NOSs inform the content of vocational qualifications and have a role in setting agreed industry competence standards. In line with other studies in this area, the first PIU report highlighted that the process by which these standards are developed by the sector bodies and approved by the four UK regulatory authorities (the Project and Standards Approval Group) could be faster and more responsive to the changing needs of industry. This was reinforced by QCA's quinquennial review (recommendations 19 and 20 above).

151. An effective partnership between the regulatory authorities and the new Skills for Business network is fundamental to reforming this system, as both have equal responsibility

A context for reforming the qualifications system

Accommodating wider change…

The National Qualifications Framework (NQF) is being reviewed in the context of a range of new developments and initiatives, including the 14–19 Green Paper, unitisation and credit developments in work-based learning, European transparency projects and the impact of ICT on assessment. The aim will be to ensure it enables learners, employers and others to find their way around the system. Consideration is also being given to the alignment of the framework with:

- the Framework for Higher Education Qualifications;
- the Scottish Credit and Qualifications Framework;
- the National Qualifications Framework in the Republic of Ireland; and
- the international context.

… and responding to the QCA quinquennial review

The quinquennial review of the QCA, the qualifications authority for England, published its first report earlier this year. It made a number of recommendations relevant to the issues highlighted in the first PIU report, including:

- QCA should, with DfES, a) appraise its own capacity and role in respect of vocational qualifications, and b) review the systems and make recommendations for change (recommendation 19);
- DfES should lead an assessment, involving QCA and the SSDA, of whether there would be benefits in changing the strategic arrangements for developing and approving vocational qualifications in the light of the creation of SSCs (recommendation 20); and
- QCA and DfES should appraise the scope for greater quality assurance of awarding bodies and less involvement in the detail of individual qualifications.

In all of its work QCA will consult and work closely with the devolved administrations and key strategic partners, including the SSDA, SSCs and awarding bodies.

in delivering a faster and more responsive programme of standard development and approval.

152. There are a variety of ways in which the system could be remodelled to achieve these objectives. The work between QCA, the other regulatory authorities, DfES, the SSDA/SSCs and the devolved administrations which will be undertaken in response to the quinquennial review will need to consider the relative merits of each.

153. Running across all of these options is the opportunity for promoting the wider use of NOSs to support the design of business development and workforce development strategies.

154. QCA, SQA, the UK administrations and SSDA are working to implement changes to the Standards Programme from early 2003. The implementation plan will need to tie in with the roll-out of the Skills for Business network over the next two years. Clear principles, objectives and outcomes of the reform will need to be established in response to the quinquennial review's recommendations to enable performance review and evaluation in 2005.

... accreditation...

155. Recommendation 17 of the quinquennial review proposes that *QCA and DfES appraise the scope for greater quality assurance of awarding bodies and less involvement in the detail of individual qualifications*. The quinquennial review also proposes that in addressing this recommendation, QCA and the DfES consult with the devolved administrations and other regulatory authorities.

156. QCA and its counterparts are currently reviewing the accreditation process and assessing the implications of focusing more on awarding bodies than on the details of their qualifications. Alternative approaches will need to be carefully tested and planned to ensure that high quality and credibility of qualifications are maintained and that the needs of individuals, employers and the economy receive equal attention. Testing approaches could be taken forward on a sectoral basis to accommodate and gain experience of how the system could work across awarding bodies of various sizes and characteristics. Cross-cutting skills areas, such as management and leadership, will also need to be taken into account.

157. QCA, together with the regulatory authorities in the devolved administrations, will work with awarding body associations, the LSC, SSDA and SSCs to explore action in the light of the quinquennial review's recommendation. The scoping of this work will be completed by January 2003. Piloting will follow with a view to implementation – phased if necessary – from autumn 2003.

... and mapping

158. The introduction of the NQF has brought significant improvements to assurances of quality and coherence in vocational awards. To build on this, there is now potential to tackle the possible mismatches between nationally recognised, publicly funded qualifications and those awards which, although not in the framework, are of demonstrable value to employers and the workforce. This is particularly the case in fast-moving fields such as IT. This can affect the transferability of individuals' qualifications, and lead to a proliferation of overlapping certificates and awards.

159. The objectives and principles for further work in this area should be:

- to build on the mapping methodology developed by existing work, for example the e-skills pilot project;
- to place vendor awards in the wider context of nationally recognised qualifications, thereby providing the individual with added benefits of national accreditation: transferability, quality assurance and breadth of study; and
- to avoid a proliferation of overlapping awards which confuse and frustrate individuals and employers.

160. Some awarding bodies already offer certificated packages customised to meet employers' needs and QCA is now working collaboratively to identify successful practice that could enhance the national framework. A report, with recommendations, will be produced in early 2003.

161. Building on the work that is already underway to review the NQF, the regulatory ground-rules and the accreditation process, LSC, the SSDA/SSCs and the four regulatory authorities will further develop the mapping methodology for piloting and implementation in sectors where 'vendor' awards have an important role in the qualifications market. Consideration will be given to how this can be taken forward jointly with the SSC trailblazers and the LSC as part of its programme of sector pilots. This work should be scoped by April 2003.

Opening up the potential of unitisation and a credit-based system

162. As part of the proposals for reform of the learning and skills sector, the DfES has made a commitment to review barriers affecting the take-up of qualifications, exploring the opportunities for opening up unit achievement, the feasibility of a credit-based approach and the funding implications. To take this forward Ministers have asked the LSC and QCA to work together to:

- prepare and present a plan for the promotion and phased implementation of a unitised system of qualifications;
- consider the case for a credit-based approach[22] to qualifications, reporting with recommendations in autumn 2002.

Case study: vendor award mapping methodology

QCA-brokered links between awarding bodies and industry specialists have led to some significant precedents being set in the mapping methodology:

- City & Guilds have mapped Microsoft Office User Specialist (MOUS) units onto their e-Qual IT User qualification, which was launched in May 2002;
- the Oxford and Cambridge Awarding Body has followed suit, with MOUS units in its Certificate for IT Users (CLAIT); and
- the MOUS units have been accommodated within the National Qualifications Framework at levels 2 and 3, and the new suite of qualifications will be available from September 2002.

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[22] Credits are a volume measure, calculated on the basis of guided or notional learning hours. Assigning a 'credit framework' to the current qualification system means adding a measure of volume to the existing qualifications descriptors of title and level.

Case study: retail

The large number of part-time and seasonal employees and the high level of SMEs within the retail sector make engaging employers in vocational qualifications and also delivering effectively via colleges and training providers particularly difficult, requiring innovative funding and delivery models. An LSC pilot in this area will seek to address these issues by identifying and then offering candidates the opportunity to achieve a coherent set of units that are directly relevant to their role from within a full NVQ, and then provide direct progression towards a full NVQ.

163. All vocational qualifications within the NQF are already fully unitised. However, the potential for greater flexibility afforded by this has not yet been fully exploited. Therefore, in delivering their unitisation plan the QCA and LSC will want to consider:

- ways to support the funding and certification of individual units;
- enabling the combination of units across different qualifications in the NQF;
- encouraging a diversity of unit size, emphasising recognition by industry or sector standards and promotion of skills across sectors; and
- how a unitised system for adults in England will interact with the systems in the devolved administrations and support progression routes from pre-19 education and to higher education.

164. In parallel, the work to explore the desirability of introducing a credit-based system will need to:

- evaluate the case for added value and demand for the addition of credits to the existing system;
- take account of the range of research already undertaken in this area, building on UK-wide experiences; and
- consider how credit can provide adults and employers with an opportunity to gain recognition for learning and training outcomes that can lead towards a full qualification.

165. The initial findings of this work will be reflected in the final report of the DfES strategy for reforming the learning and skills sector, Success for All, due to be published in November 2002. Progress will be reviewed in October 2003.

Exploiting the capacity of new ICT

166. All the processes related to assessing and accrediting learning could be significantly streamlined by the use of new technology, reducing the burden on employers and individuals alike and helping to make qualifications more portable and attractive. This is being taken forward on a variety of fronts, described below, and will be co-ordinated through the e-learning implementation group.

- QCA recently undertook a review of methods to make assessment more streamlined and sensitive to user need. A vision and medium-term strategy for the area of ICT in assessment will be developed in consultation with stakeholders by early 2003.

- Ufi/**learndirect** is developing approaches to online assessment in both test-based and evidence-based forms of assessment. This includes work to develop the capacity of **learndirect** centres to manage the online assessment process as well as progressing the '**learndirect** organiser' to enable assessment of electronic evidence through an online portfolio to meet the requirements of awarding bodies (due to be rolled out from April 2003). These examples should inform the QCA work and future development in this area.
- The LSC is considering the potential of alternative assessment models making use of electronic/online methods. A pilot in the care sector in Shropshire using paper-free assessment models and portfolios has demonstrated considerable benefits, including a reduction in the average completion time; increased retention rates; reduced assessment costs; increased ratio of learners to assessors; reduced administrative role for assessors; reduction in time taken to produce evidence for portfolio. Interim evaluation will be conducted in autumn 2002, with a view to expanding the work nationally in 2003. This will consider a range of alternative assessment models that redress the balance of assessment between the learner, assessor and employer.

Considering the role of statutory intervention and regulation

167. The first PIU report set out the need to recognise the roles and responsibilities of government, employers and individuals in achieving a step change in workforce development activity. In this context it is important that the role of statutory intervention and regulation is considered carefully. As the Pre-Budget Report 2001 pointed out, the voluntary training policies of the past have not always reached those with the lowest levels of skills who need most government support to develop. The new approaches outlined in this action plan will start us down the road to creating a more demand-led system to improve our performance on skills. In moving forward the Government will need to examine the other levers available to improve workforce development, such as statutory intervention and regulation, particularly where this meets the demands of industry or the circumstances of a particular sector. Such approaches are outlined below.

Responding to demand from industry

168. The Government's election manifesto made a commitment that "where both sides of industry in a sector agree we [the Government] will help set up a statutory framework for training".

169. Work in this area is being taken forward where the sector itself has presented an interest in statutory frameworks to Government. DfES has outlined some key policy principles in order to guide its approach to this work.

Exploring the impact of other regulation on skills

170. DfES has conducted an initial mapping exercise to identify existing regulations and Codes of Practice (CoPs) which could impact on skills, and assess the ways in which they are used to increase skills. The report will shortly be published.[23] Key findings include:

- the map of regulations and CoPs affecting the UK labour market is extremely complex and industry specific;

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[23] The report will be available on the DfES website: www.dfes.gov.uk

- indications are that regulation and CoPs are considered to have some form of impact on skills development and training in a wide range of sectors;
- consultations suggest that this impact is likely to be indirect in nature – and this means that at present they do not to any great extent cause additional employer investment in skills, encourage workforce development, or raise the skills level in sectors (although there may be some exceptions worth further exploration);
- much training associated with regulations/ CoPs typically occurs at induction;
- regulations and CoPs are often used in an occupational gatekeeper capacity – and tend to be more concerned with maintaining standards rather than raising skills levels;
- Health and Safety regulations were most frequently cited as having an impact on skills development; and
- with the exception of the Financial Services Authority (FSA), regulatory bodies do not generally consider skills development to form part of their statutory obligations.

171. These early findings suggest that further exploration and case studies in specific sectors might help identify how to make best use of the leverage that regulations and CoPs might offer.

172. In relation to this, it is important to recognise how the Government's regulatory and other interventions in the employment field, led by DTI, can have effects on workforce development, and to make best use of the leverage which those interventions can give for supporting best practice. Activities include:

- conducting or supporting research into the effects of recent legislation, for example the introduction of the National Minimum Wage, on the skills development of the workers affected;
- working with industry and family groups on developing best practice on training and other issues for women returning from maternity absence, whose skills may otherwise atrophy during their absence;
- support for and dissemination of projects emerging from best practice programmes such as work-life balance and the

Principles and criteria of government support for a statutory levy

- The sector proposing a statutory levy must be able to demonstrate a knowledge of the skill needs of the sector with clear evidence that it faces serious skills problems.
- The sector to be covered must be clearly defined.
- There must be a market failure in training in the sector.
- The statutory framework proposed must have the potential to make a real, positive impact on the skills issues facing the sector.
- The sector must be able to suggest a realistic levy rate related to the sector's skill needs and profile.
- There must be significant demonstrable support for the principle of levy from employers (and employees) in the sector.

Partnership Fund, many of which aim to improve the level of skills within the organisation; and

- the recent introduction of measures in the Employment Act 2002 to place Union Learning Representatives on a statutory footing.

173. Forthcoming changes may also have significant effects for employees who, the evidence tends to suggest, currently receive less training than their colleagues:

- the implementation of *fixed-term work* regulations (covering workers on temporary contracts) and a proposed new *agency work* directive, when taken alongside recent regulations on *part-timers*, will form a suite of measures ensuring equal treatment in workplace terms and conditions (including training) for atypical workers who often operate outside traditionally recognised career patterns; and
- the implementation, by 2006, of a European directive outlawing discrimination on grounds of *age* is also likely to have deep effects on the career development of older workers. It is important that employers start considering issues relating to the training needs of older workers, including the best ways of ensuring where necessary that skills are refreshed.

Case study: construction

In response to a need to modernise and improve its Health and Safety record, the construction industry has embarked upon a programme of qualifying the existing workforce through an industry certification scheme underpinned by NVQ qualifications. This is an approach being driven directly by the industry's employers and the Construction Industry Training Board. In a sector with a highly geographically mobile workforce, the need for a flexible delivery method for training and assessment in the workplace is the only viable solution to qualify the majority of employees, so in partnership with employers, the Learning and Skills Council is piloting a new structure for delivery – a series of local and regional training networks which draw together the skills and expertise of a range of partners to provide a responsive and comprehensive service.

ANNEX 2: GLOSSARY

ABSSU	Adult Basic Skills Strategy Unit
ALI	Adult Learning Inspectorate
BITE	Business Improvement Tool for Entrepreneurs
BLs	Business Links
BSO	Business Support Organisation
CBI	Confederation of British Industry
CEML	Council for Excellence in Management and Leadership
CfL	Campaign for Learning
CMI	Chartered Management Institute
CMPS	Centre for Management and Policy Studies
CoP	Code of Practice
CoVE	Centre of Vocational Excellence
DfES	Department for Education and Skills
DTI	Department of Trade and Industry
DWP	Department for Work and Pensions
EAPC	Economic Affairs and Productivity Committee
e-GIF	e-Government Interoperability Framework
ELN	Employer Learning Networks
ENTO	Employment National Training Organisation
ES	Employment Service
ESF	European Social Fund
ESOL	English as Second or Other Language
ETP	Employer Training Pilot
FE	Further education
FRESAs	Frameworks for Regional Employment and Skills Action
FSA	Financial Services Authority
HE	Higher education
HEFCE	Higher Education Funding Council for England
HMT	Her Majesty's Treasury
IAG	Information, advice and guidance
ICT	Information and Communication Technology
IFA	Industry Forum Adaptation
IiP	Investors in People
ILA	Individual Learning Account
LGA	Local Government Association
LLSC	Local Learning and Skills Council
LMI	Labour Market Intelligence
LSC	Learning and Skills Council
LSDA	Learning and Skills Development Agency
MA	Modern Apprenticeship
MI	Management Information
MOD	Ministry of Defence
MOUS	Microsoft Office User Specialist
NGO	Non-Governmental Organisation
NHS	National Health Service
NHSU	National Health Service University
NIACE	National Institute of Adult Continuing Education
NOS	National Occupational Standards
NQF	National Qualifications Framework
NRF	Neighbourhood Renewal Fund
NSP	National Support Project
NTAs	National Training Awards
NUT	National Union of Teachers
NVQ	National Vocational Qualifications
OCR	Oxford and Cambridge Awarding Body
OFR	Operating and financial review
Ofsted	Office for Standards in Education
OGC	Office of Government Commerce
PMDU	Prime Minister's Delivery Unit

PSA	Public Service Agreement
QCA	Qualifications and Curriculum Authority
RDA	Regional Development Agency
SAWS	Seasonal Agricultural Worker's Scheme
SBS	Small Business Service
SFDA	Small Firms Development Account
SFEDI	Small Firms Enterprise Development Initiative
SME	Small and Medium-sized Enterprise
SQA	Scottish Qualifications Authority
SR	Spending Review
SSC	Sector Skills Council
SSDA	Sector Skills Development Agency
TES	Technology, Engineering and Science
TUC	Trades Union Congress
Ufi	University for Industry
UK	United Kingdom
ULR	Union Learning Representative
US	United States

ANNEX 3: BIBLIOGRAPHY

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ANNEX 4: FURTHER INFORMATION

The role of the Strategy Unit

The Strategy Unit exists to provide the Prime Minister and government departments with a project-based capacity to look creatively at strategic long-term issues. It acts as a resource for the whole of Government and tackles issues that cross public sector institutional boundaries.

It was created by a merger of the Performance and Innovation Unit (PIU), the Prime Minister's Forward Strategy Unit, and part of the Policy Studies Directorate of the Centre for Management and Policy Studies (CMPS).

The unit carries out long-term strategic reviews and policy analysis, which can take several forms:

- long-term strategic reviews of major areas of policy;
- studies of cross-cutting policy issues;
- strategic audit; and
- working with departments to promote strategic thinking and improve policy making across Whitehall.

Project work is carried out by mixed teams drawn from inside and outside government, including the private and voluntary sectors, universities, Non-Governmental Organisations (NGOs) and local government.

The director of the Unit is Geoff Mulgan. The Strategy Unit reports directly to the Prime Minister through the Cabinet Secretary.

More information about the work of the Strategy Unit can be found on its website: www.strategy.gov.uk

The project team for the second stage

- Carol Sweetenham (Team Leader) (ODPM)
- Claudine Menashe (Strategy Unit)
- Ruth Cousens (Strategy Unit)
- Nikolaos Spyropoulos (Strategy Unit)

The team also received support from:

- Helen Gresty (Learning and Skills Council)
- Nicola Rutherford (DfES)
- Sue Otter (East Midlands RDA)
- Monica Seeley (Imperial College and Mesmo Consultancy)
- Mark Corney (MC Consultancy)

The sponsor Minister

All SU project teams' work is overseen by a sponsor Minister with an interest in the subject area. The sponsor Minister for this project, as in stage one, was John Healey MP, Economic Secretary to the Treasury.

Further information

Copies of the first report *In demand: Adult Skills for the 21st century* (December 2001) are available from the Strategy Unit and on the website www.strategy.gov.uk

ANNEX 1: The role of the Performance and Innovation Unit ....
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ANNEX 1: The Role of the Performance and Innovation Unit

The creation of the Performance and Innovation Unit (PIU) was announced by the Prime Minister on 28 July 1998 as part of changes following a review of the effectiveness of the centre of government by the Cabinet Secretary, Sir Richard Wilson. The PIU's aim is to improve the capacity of government to address strategic, cross-cutting issues and promote innovation in the development of policy and in the delivery of the Government's objectives. The PIU is part of the drive for better, more joined-up government. It acts as a resource for the whole of government, tackling issues that cross public sector institutional boundaries on a project basis.

The Unit's Director is Geoff Mulgan and it reports directly to the Prime Minister through Sir Richard Wilson. A small central team helps to identify new projects, and manages the Unit's work. Work on projects is carried out by small teams assembled from both inside and outside government. About half of the current project team staff are drawn from outside Whitehall, including from the private sector, think tanks, N.G.O.s, academia and local government.

Geoff Mulgan has also recently been appointed to lead the Forward Strategy Unit, which will do blue skies policy thinking for the Prime Minister and undertake strategy projects. It will be made up of a small number of experienced figures, drawn mainly from outside the Civil Service and will work closely with the PIU.

Comprehensive information about other PIU projects can be found on the PIU's website at www.cabinet-office.gov.uk/innovation.

ANNEX 2: The Project Team, Sponsor Minister Advisory Group And Academic Panel

The Team

- Lee Cowles – seconded from Ford;
- Sarah Fitzpatrick – seconded from the Social Market Foundation;
- Toby Greany – seconded part time from the Campaign for Learning;
- Louise Horner – seconded from the Local Government Association;
- Andrea Lee – from the PIU central economics team;
- Audrey MacDougall – seconded from KPMG;
- Claudine Menashe – seconded from the Department for Education and Skills;
- Phil Samuels - seconded from the Department for Education and Skills;
- Carol Sweetenham – (Team Leader) seconded from the Department for Transport, Local Government and the Regions;
- Shane Tomlinson - from the PIU central economics team;
- Kristin Wolff – seconded from Worksystems Inc., USA.

Support Team

- Dominic Cookson - from the PIU central team;
- Stephen Hale – from the PIU central team;
- Roopak Radia - from the PIU central team;
- Mia Rosenblatt - from the PIU central team;
- Iain Tomlinson - from the PIU central team;
- Robert Parikh - intern under Ethnic Minorities Summer Development Programme.

The Sponsor Minister

All PIU project teams' work is overseen by a sponsor Minister with an interest in the subject area. The sponsor Minister for this project was John Healey MP, Minister of Adult Skills at the Department for Education and Skills.

The Advisory Group

The team was greatly assisted by being able to draw on the experience and advice of its Advisory Group. The team benefited from an extensive process of consultation and review with the Advisory Group throughout the project. The group, chaired by Mike Kinski, Transaction Director, Principal Finance Group, Nomura, comprised:

- Stephen Aldridge – Chief Economist, PIU;
- Sarah Anderson - Council for Excellence in Management and Leadership
- Geoff Armstrong - Chartered Institute for Personnel Development
- Joanne Daniels – HM Treasury (Nick Holgate until May 01)
- Chris Humphries - City & Guilds

- Pat Jackson – Department of Trade and Industry (David Evans until May 01)
- Paul Johnson - Department for Education and Skills
- John Lloyd - AEEU
- Geoff Mulgan – Director of the PIU and the Forward Strategy Unit
- Susan Pember - Adult Basic Skills Strategy Unit, Department for Education and Skills
- Ken Poulter - Small Business Service
- Michael Stark – Learning and Skills Council
- Nick Stuart - Department for Education and Skills
- John Walker - Ford Europe

The Academic Panel

In addition, a panel of academics and specialists in the field of Workforce Development provided invaluable support, insight and guidance to the team.

- Professor Mike Campbell - Policy Research Institute, Leeds Metropolitan University
- Professor David Ashton - Centre for Labour Market Studies, University of Leicester
- Professor Frank Coffield - University of Newcastle
- Paul Johnson - Director of Analytical Services, DfEE
- Mark Corney - MC Consultancy
- Professor Steve Machin – University College London
- Geoff Mason – National Institute for Economic and Social Research
- Dr Ewart Keep - Deputy Director, SKOPE, University of Warwick
- Lorraine Dearden - Institute of Fiscal Studies
- Professor Stephen McNair - School of Educational Studies, University of Surrey
- Professor Francis Green - University of Kent
- David Robertson – Public Policy and Education, Liverpool John Moores University

ANNEX 3: Definitions

In this section the meaning behind a range of words and concepts is explored. These are terms commonly used in relation to workforce development, which are often open to different interpretations. It is helpful to establish a shared understanding of these terms as a basis for the PIU report.

Training

Training is often used mistakenly as a synonym for development. 'Training' suggests being instructed by someone in a formally assessable way. Development is wider: it can take place both in practising an activity and in being instructed in how to do it.

Education

Like training, 'education' has connotations of formal and directed learning. It is therefore not interchangeable with 'development'. It is also usually associated – if unfairly – with a very traditional classroom and teacher format and with compulsory schooling rather than different forms of learning more generally. 'Education' is used most frequently in the context of WfD with regard to 'Further Education' and 'Adult Education'.

Lifelong learning

> 'Lifelong learning means the continuous development of the skills, knowledge and understanding that are essential for employability and fulfilment.'[1]

WfD is one example of lifelong learning. Lifelong learning encompasses the formal and informal learning that people undertake as part of their working lives, as well as skills and knowledge they acquire in other contexts, which usefully feed into their working lives. It also suggests the capacity to learn: an ongoing willingness to acquire and develop skills and knowledge for work.

Formal and informal learning

Formal learning is defined in Frameworks for effective work-related learning[2] as,

> 'Formal: with a prescribed curriculum and externally-specified outcomes; generally comprising organised events or learning packages; often resulting in a qualification or the award of a credit.'

This definition offers us an easy way to identify formal learning and picks out its main characteristic – it is easily recordable and assessable.

The simplest way to identify informal learning is with reference to the lack of any of these elements; the absence of a curriculum, for instance, or of a qualification. Because informal learning lacks the characteristics that make formal learning easily identifiable, its existence, and the benefits it brings, can be ignored.

Skills

Following the NSTF, we distinguish three categories of skills:[3]

> 'Generic skills: the transferable skills that can be used across occupational groups. These include what have already been defined as Key Skills - communication, application of numbers, problem solving, team working, IT and improving own learning and performance.... generic skills also covers reasoning skills, work process management

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[1] *The Learning Age*, DfEE Green Paper 1998.

[2] *Frameworks for effective work-related learning*, Project report, University of Cambridge Programme for Industry 2000

[3] These are the three general categories identified in the First Report which constitute their remit. The detailed typology of skills in the Final Report (basic, generic, mathematics, intermediate level, specialist information and communications technology, major adult) refer to skills deficiencies and not to overall types of skills.

skills, and personal values and attitudes such as motivation, discipline, judgement, leadership and initiative.'

'By vocational skills we mean the specific "technical" skills needed to work within an occupation or occupational group. They... will often be those capabilities described within Occupational Standards developed and published by National Training Organisations. Some vocational skills... may also be transferable across occupations.

'In the provision of training, a number of job specific skills may also be included. These might include local functional skills (e.g. operating specific pieces of equipment) or employer wide skills (e.g. in-company quality standards or specific working methodologies).'

E-Learning

E-learning refers to one of, or a combination of, the following training approaches:

- self-directed Web-surfing for some specific purpose;
- computer-based or Web-based Training (CBT or WBT);
- facilitated Distance Learning—training supported remotely through cable television, telephone, video, web, or some combination;
- 'Knowledge Management'—capturing personal and organisational knowledge as it is acquired and make it easy to access as needed;
- learning and Learning Content Management Systems—systems that offer firms performance support; and
- Human Capital Development Management (HCDM)— HCDM systems enable firms to link business objectives to training needs and content.

Workforce

The 'workforce' includes people working in the private, public and voluntary sectors. It also includes those who are currently working and those who are close to the workforce – either actively seeking work or keen to return to work. This definition includes young people of 16 plus ranging to older workers up to the generally accepted age of retirement. It does not simply refer to permanent, full-time workers but also to those working part time, at home, for agencies or on fixed-term contracts. We have considered how workforce development might impact particularly on ethnic minorities, older people, disabled people and women.

High performance organisation

Definitions of the high performance organisation vary. However, high performance organisations are generally characterised by high trust, high employee discretion, high wage, high commitment and high skill. They often consist of the following specific components:

- leadership and vision, to create sense of momentum;
- decentralised, devolved decision making, made by those closest to the customer;
- innovation and quality;
- focus on customers and continuos improvement;
- flatter organisational structures;
- self management and team working; and
- people management processes e.g. training aligned to organisational strategy.[4]

The learning organisation

Coined by Peter Senge in *The Fifth Discipline*,[5] the learning organisation refers to a decentralised organisational model that seeks to acquire knowledge by supporting the development of human capital, its application and further growth. The model relies heavily on an environment that values teamwork, engages in formal and informal learning, and captures and shares information and experience among employees, and encourages innovation.

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[4] *High performance working is for everyone*, ITFDO/ILO 2000

[5] Senge P., *The Fifth Discipline*, Random House 1990.

> 'A learning organisation is a group of people who are continually enhancing their capabilities to create what they want to create. It's that simple.'
>
> Peter Senge

ANNEX 4: Methodology

The PIU undertook its work in five phases:

- planning and scoping the project including identifying key stakeholders
- fact finding based around eight workstreams (IAG etc)
- production of an analysis paper drawing together findings to extrapolate strengths and weaknesses in the current system;
- developing a vision for a better future
- formulating policy options and recommendations to Government for the future of WfD.

1. Planning and scoping the project

The PIU received a remit from the Prime Minister in November 2000 to undertake a project on the extent, nature and main causes of under-investment in workforce development. A team was assembled in March/April 2001 (see Annex 2 for details). It:

- produced a project plan
- identified key stakeholders
- set up an Advisory Group and Academic Panel for consultation and guidance (Annex 2)

The team explored the meaning of workforce development and produced a 'virtuous spiral' as a model for the stages involved in achieving effective development (see Chapter 6 of main report) which was used to identify the eight key policy areas forming the basis of the analysis.

2. Fact finding based around eight workstreams

The eight workstreams, based on key policy areas identified in phase one, were:

- *Behaviour and motivation*: what makes people keen to learn? What attitudes stand in their way? What are the attitudes of employers? Is there a cultural bias against learning and development? Or lack of evidence for the benefits?
- *Qualifications and quality*: does the qualifications system provide a helpful framework for individuals to progress through? Is it sufficiently transparent for individuals and employers? Do qualifications deliver what employers want? Are formal qualifications necessarily the right answer? To what extent should non-formal learning be recognised and promoted more clearly?
- *Basic skills and access*: What is now provided for basic skills and what lessons can be learnt from it for development more generally? What barriers stand in the way of access to the training system, especially for those with low skills? Is there a case for focussing in part on those marginal to the workforce who with some development could become fully participating members (excluding those who are so disadvantaged that they stand little or no chance of entering/re-entering the workforce and who are covered in the work of the Social Exclusion Unit)?
- *The role and concerns of business*: what do employers currently do and how does the system help them do it? Is poaching a genuine concern? What are the particular issues of small business? Is there a need to look at individually tailored solutions, recognising the diversity of business, the rapidly changing structure of sectors and the impact of mobile investors? Can businesses be encouraged to make development more central to their planning and HR processes (the suggested tax credit may help)? What is the right balance of regulation and encouragement? What are the views of mobile investors and inward investors? Should companies be required to publish their workforce development investment and outcomes in their annual reports?
- *Funding and incentives*: who benefits from workforce development – individuals, firms,

industries, the economy, and society at large? Do the funding arrangements in the current system give enough power to customers? What incentives, financial and other, might Government deploy to encourage workforce development? What is the appropriate balance of reward, incentive and regulation? Should poor performance be penalised in some way over and above the disciplines imposed by the market? Are there competing incentives? Is it possible for incentives and schemes to be simplified, rationalised or abolished, thus avoiding initiative-itis?

- *Information, Advice and Guidance (IAG)*: what are the current structures for giving IAG to individuals and employers, particularly to small businesses and adults over 19? What are the intermediaries? Are they and the products they market transparent? Is the advice proactive enough? Is there a role for impartial advice rather than those marketing their own services (including Government initiatives)? Is there enough capacity for planning ahead to meet skills shortages and sharing that information? This needs to be considered in the context of shortages in some specialist and technical skills as well as the broader canvas of lower and intermediate skills.
- *Networks, groups and role models*: the role of mentoring, for individuals and employers. How can existing groupings be made to work better, promoting co-operation rather than poaching? How can best practice be promoted and role models published?
- *Flexibilities* in existing structures: what are the weaknesses in existing structures? Are they responsive enough to customer demand? How could they be made so? There is a very important set of questions around the role of E-learning: are expectations realistic?

These workstreams, led by individual team members, provided a focus for gathering information and managing relevant stakeholders. The research was carried out in a variety of ways:

- Each member of the team had extensive discussions with stakeholders and experts within government departments and related bodies, drawing on their experience; knowledge and existing research. This was supplemented by visits to regional and local partners, providers and employers to explore the issues and best practice at grass roots level. A list of people and organisations consulted is included in Annex 5.
- The PIU carried out its own analysis of the data relating to the volume, distribution, cost and returns to workforce development.
- MORI and other consultants were commissioned to carry out a series of focus groups were conducted with individuals, small businesses and providers.
- Support, advice and expertise were provided by regular consultations with the team's Advisory Group and Academic Panel.
- New research was commissioned:
  - Literature Review – Ewart Keep and Sandy Coleman
  - The Economic Benefits of Training – Steve Machin and Anna Vignoles
  - Lessons Learnt from Overseas Experience – David Ashton and Johnny Sung
  - Motivation for Workforce Development: The Role of National Culture – David Guest

  These were presented in a series of seminars where the issues could be further discussed with the authors. These are available on the PIU website at: http://www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml

3. Producing an analysis paper

This interim report was produced in order to pull together the findings from the eight workstreams and to establish the strengths and weaknesses of the current system. An examination of the respective roles of individuals, employers and government underpinned the structure of the paper.

The paper was developed in consultation with a range of key stakeholders, including the advisory and academic groups, whose feedback was invited on various occasions. An Executive Summary was published on the PIU website in July 2001 and followed by the full analysis report in early September.

Much of the work involved in the first three phases of the project and in producing the analysis paper is reflected in Chapters 4 and 5 of this report.

4. Developing a vision for a better future

This phase of the project ran alongside much of the other investigative activity and worked to inform the development of our thinking throughout the analysis stage. A range of events were arranged to explore the wider context of the current system and to allow for more creative thinking and innovative solutions; these included:

- seminar hosted by the Industrial Society to look at the contribution of Workforce Development to Productivity and Social Inclusion;
- workshop on Motivation to learn and Culture in the UK;
- session with the PIU's Strategic Futures group on Workforce Development and the future of the UK economy;
- session in the DTI Future Focus lab exploring different scenarios of how society and the economy might develop and what the implications might be for Workforce Development Strategy; and
- Innovation Workshop bringing alternative perspectives on the issues and possible solutions.

Ultimately, this work, in conjunction with the analysis, brought the team to its vision of a demand-led system outlined in Chapter 6.

5. Formulating policy conclusions

The conclusions reached in the analysis paper were used to outline a series of objectives. These were also informed by the vision of a demand-led workforce development system, as described above. In this way, it was ensured that policy conclusions were both firmly rooted in the evidence and would work together to achieve a common, long-term goal.

Three primary objectives were identified and used as a starting point:

- Increasing demand, especially amongst small firms and low skilled individuals
- Improving the capacity and responsiveness of the supply side
- Providing the right government framework

Areas for policy development were drawn up and evaluated in consultation with key stakeholders and against an agreed set of criteria.

Conclusions for policy development were assessed against the following criteria:

- Is it already happening?
- How important is it to our overall strategy?
- Is it cost effective?
- Can or should government intervene?
- Is it deliverable?
- What impact will it have on behaviour?
- How do stakeholders feel about it?
- Are there any unintended consequences?

- How simple is it?

The outcomes of this strand are reflected in Chapters 5 to 9 of this report.

ANNEX 5: Organisations and People Consulted

During the analysis phase of the project, the team consulted widely talking to individuals in many organisations as well as commissioning focus groups of individuals and employers. The intent of the consultation phase was to understand the opinions of different groups of stakeholders and the team followed up references to others to be as comprehensive as possible. The focus groups, whilst not extensive enough to provide entirely new research data, acted as a useful "reality-check" to make sure that the team's ideas were grounded in the evidence.

Individuals consulted:

First Name	Surname	Organisation/Department
Kanta	Ghudial	Advice and Guidance Partnership
Julian	Saunders	Advice and Guidance Partnership
Nicky	Perry	Adult Learning Inspectorate
John	Lloyd	AEEU
Simon	Gallagher	All-Sector NTOs
John	Brennan	Association of Colleges
Judith	Norrington	Association of Colleges
Wendy	Brown	Barclays Bank
Laura	Macmillan	Basic Skills Agency
Michael	Hastings	BBC/Public Affairs
Margaret	Belle	Belle Associates
Catherine	Fogg	British Chambers of Commerce
Stephanie	James	British Chambers of Commerce
Shan	Morgan	British Embassy, Paris
Bill	Lucas	Campaign for Learning
Liz	Davies	Central Government NTO
Geoff	Armstrong	Chartered Institute for Personnel Development
John	Stevens	Chartered Institute of Personnel Directors
Martyn	Sloman	CIPD/Training and Development
Jeremy	Crump	Cisco Systems/eLearning
Jane	Knight	Cisco Systems/eLearning
Bob	Mozley	Citizen Connect Ltd
Chris	Humphries	City & Guilds
Sue	Fifer	City & Guilds
Margaret	Murray	Confederation of British Industry
Sarah	Anderson	Council for Excellence in Management and Leadership
Alan	McLarkey	Croydon Council
Beatrice	Rogers	CSSA
Nick	Kalisperas	CSSA/Industry Affairs
David	Guest	Department of Organisational Psychology University of London
Brian	Glickman	DfES
Ian	Hanks	DfES
Tony	Kearsey	DfES
Nick	Stuart	DfES

Jon	Coles	DfES
Graham	Cheetam	DfES
Alan	Davies	DfES
Eric	Galvin	DfES
Ian	Hanks	DfES
Tina	Haslem	DfES
Paul	Johnson	DfES
John	McCann	DfES
Sam	Mellor	DfES
Judith	Roe	DfES
Cath	Witherington	DfES
Rosemary	Childs	DfES/Access to Learning for Adults Division
Tim	Down	DfES/Access to Learning for Adults Division
Millar	McDonald	DfES/Access to Learning for Adults Division
Kate	McGimpsey	DfES/Adult and Community Learning
Marcial	Boo	DfES/Adult Basic Skills Strategy Unit
Susan	Pember	DfES/Adult Basic Skills Strategy Unit
Bruce	Burne	DfES/Analytical Services
Anthony	Clarke	DfES/Analytical Services
John	Doherty	DfES/Analytical Services
Yvonne	Smith	DfES/Analytical Services
Carol	Stanfield	DfES/Analytical Services
Paul	Harper	DfES/Connexions Unit
Anne	Weinstock	DfES/Connexions Unit
Oliver	Couch	DfES/Lifelong Learning and Technologies Division
Roy	Vernon	DfES/Skills for Employment Division
Roger	Weller	DfES/Skills for Employment Division
Stuart	Gordon	DfES/Skills for Employment Division
Paula	Townsend	DfES/Skills for Employment Division
Jeremy	Allen	DTI
David	Bacon	DTI
Mark	Beatson	DTI
Peter	Christie	DTI
Pat	Jackson	DTI
Mark	Keowns	DTI
Charles	Phillips	DTI
Chris	Mee	DTI
Jim	Mitchell	DTI
Michael	Ridley	DTI
Ken	Warwick	DTI
Angus	Gray	DWP
Elaine	Hendry	DWP
Jaee	Samant	DWP
Cay	Stratton	DWP
Vivienne	Stone	Disability Rights Commission
Judith	Christian-Carter	Effective Learning Solutions Ltd
Jacci	McCaw	Employment Service
Derek	Carr	EMTA

Anne	Madden	Equal Opportunities Commission
Ian	Handford	Federation of Small Businesses
Rob	Brittle	Ford Motor Company
Sean	McIlveen	Ford Motor Company
Stan	Mendham	Forum of Private Businesses
Leigh	Henderson	Guidance Council
Jo-Anne	Daniels	HMT
James	Richardson	HMT
Melanie	Dawes	HMT
John	Kingman	HMT
Simon	Ridley	HMT
Jeremy	Hunt	Hotcourses
Ron	Griffiths	HSE-
Ruth	Spellman	IiP
Monica	Seeley	Imperial College
Tony	Goulbourn	Independent Consultant
Jill	Robson	Independent Consultant
Alex	Pratt	Independent Consultant
James	Crabtree	Industrial Society
Andy	Westwood	Industrial Society
Jim	Norton	Institute of Directors
Richard	Wilson	Institute of Directors
Alastair	Morgan	Invest UK
Nick	Burkitt	IPPR
Peter	Robinson	IPPR
Wendy	Piatt	IPPR
Nick	Hardy	IPPR
Ian	Kearns	IPPR/Digital Society
Nick	Brown	KPMG
Maria	Sillanpaa	KPMG
Robert	Bolton	KPMG/eLearning
Juliet	Osborne	KPMG/eLearning
Grant	Ritchie	KPMG/eLearning
Wendy	Forest	Learner Services/Lewisham FE College
Bernard	O'Driscoll	Lloyds TSB
Tony	Winterbottom	London Development Authority
Bharti	Patel	Low Pay Unit
Geoff	Hall	LSC
Graham	Hoyle	LSC
Geoff	Daniels	LSC
Michael	Stark	LSC
John	Lambert	LSC
Caroline	Mager	Learning and Skills Development Agency (LSDA)
Chris	Hughes	LSDA
Paul	Stanley	MoD
Adrian	Anderson	National Training Organisation National Council
John	Gray	Newark and Sherwood College
Liz	Laycock	Newham College of Further Education

Bernadette	McAnespie	Newham College of Further Education
Alan	Tuckett	NIACE/LCS Adult Learning Committee
John	Bushnell	NILTA
Deirdre	McGill	Northern Ireland Assembly
Tom	Scott	Northern Ireland Assembly
Adrian	Anderson	NTO National Council
Tom	Bewick	NTO National Council
Andy	Powell	NTO National Council
John	Goldthorpe	Nuffield College, Oxford
Mike	Collier	One North East Regional Development Agency
Bob	Little	Open Learning Journal
Mark	Gray	Oxford University/CPD Centre
Peter	Honey	Peter Honey Publications Ltd
David	Hargreaves	Qualifications and Curriculum Authority (QCA)
Beverley	Evans	QCA
Keith	Weller	QCA
Bruce	Armitage	Scottish Enterprise
Stephanie	Young	Scottish Enterprise Glasgow
Alistair	Aitken	Scottish Executive
Dinah	Caine	Skillset
Kate	O'Connor	Skillset
Wendy	Humphries	Small Business Service
Ian	Kinder	Small Business Service
Kenneth	Poulter	Small Business Service
Mike	Ward	Small Business Service
Tony	Robinson	Small Firm Enterprise Development Initiative
Helen	Gorner	South Yorkshire LSC
Maggie	Hoyland	South Yorkshire LSC
Marilyn	Roberts	South Yorkshire LSC
Gary	Gilligan	Sun U EMEA/eLearning
Gordon	Edge	The Generics Group
Clive	Morton	The Morton Partnership
William	Benn	the-shelf.com
Eny	Osung	the-shelf.com
Bert	Clough	Trades Union Congress
John	Monks	Trades Union Congress
Frances	O'Grady	Trades Union Congress
Liz	Smith	TUC/Learning Services
Phil	Gowan	TUC/Learning Services
Tony	Chandler	Unison
Ann	Limb	University for Industry (Ufl Ltd.)
Mary	Benwell	Ufi Ltd
Gareth	Dent	Ufi Ltd
Mark	Smith	Ufi Ltd
Sue	Roocroft	UK Online
John	Walker	Vice President Human Resources, Ford of Europe
David	Storey	Warwick University
Richard	Keveran	Welsh Assembly

Barbara	Morris	Welsh Assembly
Sue	Lewis	Women's Unit
Kylie	Stephens	Women's Unit

The team liased with the following reviews:

CBI/TUC Working Group on Training for Productivity and Employability
NTO Network Review Team
DfES Workforce Development Planning Group
Kingsmill Review of Women's Pay and Employment
Davies Review of Enterprise and the Economy in Education
Hillier Review of the UK National Occupational Standards Programme
DTI Skills and Education Group
BCC Chamber Training Forum

Focus groups were conducted involving the following:

Group	Location	Carried out by
Public sector employers	London	PIU
Small businesses (<10 employees)	Nottingham	MORI
Small businesses (10-50 employees)	Nottingham	MORI
Individuals under 35	Nottingham	MORI
Individuals over 35	Nottingham	MORI
Small businesses (<10 employees)	Southampton	Southampton Small Business Centre with Lee Cowles
Employers and institutions	Doncaster	T Goulbourn, for PIU

And members of the team carried out special visits to:

Ford EDAP
Construction Industry Training Board
Birdseye
Devolved Administrations
Newham College of Further Education
Lewisham College
Worcester College of Technology
Lloyds TSB Corporate University
One-Northeast
Central London LSC
County Durham LSC
East London LSC
Hereford and Worcester LSC
Tyne and Wear LSC
The Arts Factory (Wales)

University of Glamorgan
UKOnline Centres, Sheffield, East London, London, Newark
Newark and Sherwood College
Cisco Systems
KPMG
York, Manchester, Central London and Hereford and Worcester Business Links
South West Durham Group Training Association
Seafish Group Training Association
Southampton Enterprise Agency

Annex 6: Glossary

ALI	Adult Learning Inspectorate
BTEC	Business and Technology Education Council
CAT	Credit Accumulation and Transfer
CBI	Confederation of British Industry
CEML	Council for Excellence in Management and Leadership
CSF	Childcare Support Fund
CEDEFOP	European Centre for the Development of Vocational Training
CIPD	Centre for Innovation in Product Development
COVE	Centre of Vocational Excellence
DETR	Department of the Environment, Transport and the Regions
DfES	Department for Education and Skills
DTI	Department of Trade and Industry
DWP	Department of Work and Pensions
EFQM	European Foundation for Quality Management
EMA	Educational Maintenance Allowance
ES	Employment Service (now Jobcentre Plus)
ESF	European Social Fund
ESOL	English as a Second or Other Language
EU	European Union
FE	Further Education
FEFC	Further Education Funding Council
FRESAs	Frameworks for Regional Employment and Skills Action
FSB	Federation of Small Businesses
FT	Full time
GDP	Gross Domestic Product
GO	Government Office
GTA	Group Training Association
HCDM	Human Capital Development Management
HE	Higher Education
HMT	Her Majesty's Treasury
HPW	High Performance Working
HR	Human Resources
HRM	Human Resource Management
IAG	Information Advice and Guidance
ICT	Information and Communications Technology
IDC	International Data Corporation
IiP UK	Investors in People UK
ILA	Individual Learning Account
JSA	Jobseeker's Allowance
LFS	Labour Force Survey
LLSC	Local Leaning and Skills Council
LLP	Local Learning Partnerships
LMI	Labour Market Intelligence
LSC	Learning and Skills Council

MA	Modern Apprenticeship
MORI	Market and Opinion Research International
MBA	Master of Business Administration
NALS	National Adult Learning Survey
NDPB	Non-Departmental Public Body
NIACE	National Institute of Adult Continuing Education
NMW	National Minimum Wage
NOSs	National Occupational Standards
NSTF	National Skills Taskforce
NTO	National Training Organisations
NVQ	National Vocational Qualification
OECD	Organisation for Economic Co-operation and Development
OFSTED	Office for Standards in Education
OGC	Office of Government Commerce
PIU	Performance and Innovation Unit
PSA	Public Service Agreement
PSAG	Projects and Standards Approval Group
PSB	Productivity and Standards Board
QCA	Qualifications and Curriculum Authority
RDA	Regional Development Agencies
RSA	Royal Society Award
SBS	Small Business Service
SFTL	Small Firms Training Loan
SIWG	Skills and Intelligence Working Group
SME	Small and Medium-sized Enterprise
SSC	Sector Skills Council
SSDA	Sector Skills Development Agency
TEC	Training and Enterprise Council
TUC	Trade Union Congress
UFI	University for Industry
ULR	Union Learning Representative
US	United States
WBL	Work Based Learning
WfD	Workforce Development
VRQs	Vocationally Related Qualifications
VFM	Value for Money

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Annex 8: Existing Workforce Development Performance Targets[6]

Department[7]	Objectives Relating to Workforce Development	Targets
Department for Education and Skills	1. Developing in everyone a commitment to lifelong learning, so as to enhance their lives, improve their employability in a changing labour market and create the skills that our economy and employers need.	The responsibility for delivering DfES targets relating to workforce development and other youth and adult education and training agendas has been transferred to the Learning and Skills Council (LSC). The LSC has built upon the former National Learning Targets to develop its current targets, which carry through to 2004. These targets are further articulated in the LSC Corporate Plan. [see http://www.lsc.gov.uk/]
Learning and Skills Council	1. Extend participation in education learning and training 2. Increase the engagement of employers in workforce development 3. Raise the achievement of young people 4. Raise the achievement of adults 5. Raise the quality of education and training and user satisfaction	1 (a). 80% of 16-18 year-olds in structured learning 1 (b). Set adult targets in 2002 2. Develop measure of employer engagement in 2002 3 (a). 85% at level 2 by age 19 3 (b). 55% at level 3 by age 19 4 (a). Raise literacy and numeracy skills of 750,000 adults 4 (b). Percentage of adults at level 2 to be set in 2002 4 (c). 53% of adults at level 3 5. Set baselines and targets in 2002

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[6] This analysis was conducted in July 2001 using the existing PSAs and SDAs with Departments as they were organised pre-election, see "Spending Review 2000: New Public Spending Plans 2001-2004", HMT. New agreements with new targets are currently in development as a part of the 2002 Comprehensive Spending Review and as a result of Departmental realignment, but these new targets are not yet in-place and therefore could not be part of this analysis.

[7] Importantly, other Departments, such as the Department of Culture, Media and Sport, also maintain targets for workforce development—those related to the skills of the New Media industry and digital inclusion, for example. However, we focused on the three key Departments—DfES, DWP, and DTI because workforce development is central to their Departmental remits.

Department	Objectives Relating to Workforce Development	Targets
Department of Transport, Local Government, and the Regions	1. Enhance sustainable economic development and social cohesion throughout England through effective regional action and integrated local regeneration programmes.	1. Improve the economic performance of all regions, measured by the trend in growth of each region's GDP per capita (shared between the DTI and the DETR—presumably it will now be shared between the DTI and the DTLR)
Department of Trade and Industry	1. To promote enterprise, innovation, and increased productivity.	1 (a). Improve UK competitiveness by narrowing the productivity gap with US, France, Germany, and Japan over the economic cycle. 1 (b). Help build an enterprise society in which small firms succeed, more people consider going into business for themselves, small firms are supported in increasing their productivity, and more enterprise is present in disadvantaged communities. 1 (c). Make the UK the best place in the world to trade electronically 1 (d). Improve the economic performance of all regions measured by the trend in growth of each region's GDP per capita (joint target with DETR)

Annex 9: International Comparisons

(Based on the paper "WfD: Lessons Learnt From Overseas Experience" – David Ashton and Johnny Sung, May 2001.)[8]

This annex gives a very brief outline of workforce development systems in a variety of countries. It is simplistic but useful to think of the USA and Singapore towards the extremes of a continuum ranging from market driven to state controlled. The other countries covered sit in between, with the UK closest to the US model. The original paper on which this is based does not explicitly describe the UK's system (which is covered in detail in the main report). The section on the UK below was added based on a recent book "High Skills: Skills Formation, Competitiveness and Globalisation" by P. Brown, A. Green and H. Lauder, Oxford University Press, 2001.

The UK Approach[9]

Both the US and UK have a high skills elite and polarised skills distribution. The school system creates a wide diversity of outcomes and post 16 education is fragmented. The system is predominantly voluntaristic and is characterised by:

- Flexible labour markets
- Informal partnerships and networks
- Very few regulatory mechanisms:
  - Limited license to practice
  - No compulsory membership of chambers
  - Limited social partnership agreements on skills
  - No statutory requirements on employers to train
- Few compulsory levies
- Short-term finance

Advantages

This type of system suits knowledge intensive industries, where high level skills are essential, and industries like banking where skills polarisation is the norm. A recent comparative project[10] identified that the UK system is relatively cost-efficient because there is little wasted expenditure due to regulated training (unlike, say, France) and it is relatively responsive to immediate labour market needs.

Disadvantages

The current system in the UK has done little to drive up company performance and demand for skills despite these having been identified as problems for a considerable period. It is reliant on "rational choice" which is a tenuous construct. This system also tends to perpetuate skill divides, which are detrimental to social cohesion (not the UK and US have significant "tail" of low skilled adults). The skill-polarised model is less competitive in medium technology industries based on intermediate skills (like high value-add manufacturing).

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[8] This paper is available in full on the PIU Website:

www.cabinet-office.gov.uk/innovation/2001/workforce/development.shtml

[9] Also used "High Skills: Skills Formation, Competitiveness and Globalisation by P. Brown, A. Green and H. Lauder, Oxford University Press, 2001.

[10] ibid

Challenges for the Future

Increasing skills polarisation may lead to increased social exclusion and widening income gaps.

The knowledge-driven economy creates fewer, high skill jobs, which tends to reinforce income polarisation.

Devolution – skills are a devolved policy area and the devolved administrations appear to be adopting different strategies to England. This could lead to beneficial competition or to inefficiency.

The USA's approach.

The US approach is one where the principal mechanism for skill formation is the market[11], which is relied upon to adjust the demand and supply of skills and to determine the stock of skills. Employers encounter shortages for skills and send out a signal to the market by increasing the price they pay for skills in short supply. Parents respond by encouraging their children to pursue appropriate training and they also pressure schools and colleges to provide appropriate courses. Those in the labour market respond by investing in their own skill development. The employers provide company specific job skills.

In an economy the size of the USA, characterised by a central (Federal) government with relatively weak internal political power and confronted by individual states which jealously guard their own autonomy, the role of the state has been confined to ensuring the right conditions for the delivery of education, as a "public good". Otherwise, the government restricts its interventions to instances of market failure such as the provision of training for the unemployed and disadvantaged minority groups through activation policies. These have in general been successful in facilitating the re-entry of the unemployed back into employment (Grubb, 1995 and 1996). In these circumstances, publicly funded training becomes associated with unemployment. Unions are weak at the political level and their influence in the workplace is confined to a limited number of industries.

The only point where the Federal government can influence the supply of intermediate level skills, and where it has been active, is in helping increase the responsiveness of the tertiary sector, especially the community colleges, to meet the skill needs of local employers. Otherwise the responsibility for delivering training is that of the employer and the individual, with employers being used to identify the national skill needs.

The market has provided an efficient means of co-ordinating the process of skill formation and worked well in providing a large flow of well-educated young people into the labour market. In addition, the flexibility of American tertiary institutions has succeeded in providing opportunities for individuals to re-enter education later in life to upgrade their skills. This has created a stock of well-qualified adults. However, there are two problems with using the market. First it can be slow to operate. Left to its own devices, the market signals take time before they produce changes in the educational structure. In the case of tertiary education some of the delay has been circumvented through mechanisms such as Partnerships whereby employers and educationalists collaborate in designing the curriculum. Second, it only responds to the immediate needs of the employers. The longer term needs of the economy as a whole tend to be ignored.

The challenges of globalisation have been met by the government funding the community colleges to enhance the intermediate skills of the labour force and to help deliver the new skills required of the labour force. This has produced a number of very innovative schemes at the local level. The government has also sought to improve the operation of the market at the lower levels, first through the use of Private Industry Councils to deliver government funded programmes for the unemployed and disadvantaged and later through its latest attempt to integrate provision at the local level through the 1998 Workforce Investment Act.

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[11] The typology of national systems on which this discussion is based is spelt out in more detail in Ashton, et al. (2000).

There are two main areas where we can look to the US for good practices. The first is in the field of community college education and business partnerships. The second is the development of information sharing systems at the local level to facilitate the operation of the market, the One-Stop-Shop idea.[12] These bring together under one roof a choice of education, training and employment programmes[13].

Advantages

There are many innovative practices in the Community Colleges. When they work well they are very flexible at the local level and provide excellent training tightly geared to the requirements of employers and the local labour market.

Disadvantages

The quality of the Community college responses is variable because the federal government does not directly control colleges. Local control means that some are very good while others are very bad. Similarly with the One-stop-shop or career connect, some are excellent and innovative, others weak.

The Singaporean approach.

In the Singaporean approach, the operation of the labour market is influenced by government co-ordination of the demand for and supply of skills. This is used to speed up the process of adjustment. The government uses its vision of where the country is heading, the type of industries it wants to attract and develop, and uses this, together with knowledge derived from employers about their immediate skill demands, to identify national skill needs. At the moment the vision is to achieve the standard of living of the Swiss by 2020 and the type of industries to be developed in order to supply that standard of living: these include petroleum, bio-technology and electronics. Through this policy the government influences the demand for skills.[14]

Once identified, the information on the country's skill needs is then fed into the Council for Professional and Technical Education (CPTE). The CPTE also receives information from employers on their skill demands and from education and training institutions on the current supply of skills. Academics provide projections on future demand. All this is then used by them to inform decision making about the supply of skills, both for those entering the labour market and those already in the labour market. Any shortfall in supply that cannot be met from internal adjustments is filled by immigration. The whole process is overseen by the Ministry for Trade and Industry.

The system works by supplementing the market. Employers still send out signals through the price mechanism when they encounter shortages and want the market to respond. These operate in the same way as they do in the US and UK. However, the government has access to information on the future direction of the economy which neither the employers nor the parents have. It uses this to influence the output of the educational system and to encourage employers to help prepare the labour force with the requisite skills required for the next phase of economic growth. This shapes and speeds up the adjustments taking place in the system.

The government then has a number of levers it can use to influence the process of skill formation.

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[12] Pantazis, C. 'The New Workforce Investment Act', *training and Development,* ASTD 1999.

[13] Information derived from www.careerconnect.state.va.us/1112nova/about.htm.

[14] Ashton, D, F. Green, D, James, J. Sung, *Education and Training for Development in East Asia,* London 1999.

Through its vision it attempts to shape the cultural attitude toward training and workforce development. Training is all about human development it is not associated with unemployment[15].

Through its control over the education system, both academic and technical, it can influence the supply of skills flowing into the labour market.

Through the Productivity and Standards Board (PSB) it influences the training of those workers already in the labour market[16].

All levers are used to ensure that the supply of skills not only matches current demand but also prepares for future demand. This has enabled them to avoid serious skill shortages and facilitated rapid economic growth over a period of thirty years. The market still operates but within a framework in which the government influences both the demand for skills and the supply of skills.

The challenges of globalisation

The government has sought to meet these challenges by attempting to move the economy into higher value-added forms of production. From the training perspective it has attempted to encourage firms to make better use of the workplace as a source of learning and more recently introduced a series of schemes designed to encourage employers to restructure the workforce and to develop the skills required for the new industries. It also has a series of programmes directed at the older worker to improve basic skills and enhance lifelong learning.

The range of levers available has enabled the government to approach training policy in a holistic manner. Each initiative is designed to complement the others and therefore add value as part of a "total" workforce development package.

Advantages

This "shaping" of the market has helped speed up the adjustment of the education and training system to the immediate and medium term demands from the economy. First, it means that there are fewer skill shortages as the skills are in place when the demand increases. Second, all schemes are delivered through employers who are thereby encouraged to take ownership of them. Third, the system has been successful in raising the average level of investment by employers in training and development activities from 1% of payroll in 1989 to 4% in 2000[17]. This is a much higher level than has been reported for the US, 1% of payroll on average and the Netherlands, 1.7% on average.[18]

Disadvantages

The disadvantages centre around the difficulties of securing employer buy-in to the schemes. Also there is a danger that if the "wrong" industries are targeted through the trade and industry policy then there will be a knock on effect in the delivery of skills. However, this danger has been minimized by the constant dialogue between the Economic Development Board which operationalises the trade and industry policy and the other government departments responsible for skills supply. A more serious problem for a larger country would be the danger of inflexibility in the education and training system that stems from tight central control.

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[15] Brown P, A. Green, H. Lauder, *High Skill: Globalization, Competitiveness and Skill Formation* Oxford 2001.

[16] Details of the PSB programmes can be found on http://www.psb.gov.sg

[17] It should be noted that these figures include the cost of trainee salaries, which are often excluded from UK employers' figures. Data on the training spend is available on <http://202.42.22.80/news/releases/99_11_18.htm>. The latest figure of 4% was relayed in private correspondence with the Director of the Workforce Division, in August 2001.

[18] Mulder M. and S. Tjepkema, 'International Briefing No 1 Training and Development in the Netherlands'. *International Journal od Training and Development* 3(1).

The French Approach

This uses the market to deliver skills but in the context of a highly centralised national education system and strong employer based internal labour markets. Workforce development is conditioned by a strong link between educational achievement, qualifications and level of entry to the labour market. Policy is also strongly influenced at the national level by the employers and the unions (in spite of the low level of unionisation - 9%), with the state playing a subsidiary role. There is a strong cultural emphasis on the importance of qualifications.

There are two main policy approaches.

1. The first is to use the centralised education system to improve the overall level of general and vocational skills of those entering the labour market.

2. The second is to increase employer based training, achieved largely through the training tax or levy (currently 1.5% of payroll).

Challenges of Globalisation

The French have succeeded in producing a significant increase in the flow of young people into the labour force with intermediate level skills. The training tax system has succeeded in increasing investment in training. The problems remaining are that demand for new skills is not being met by either the education system or the training system. Also the levy has not made any significant difference to inequalities which currently exist in access to training, leaving the most vulnerable groups, the low skilled and unemployed, with little access to training and therefore at risk of being marginalised.

Overall there are two main weaknesses. First, the difficulties of using the centralised educational system as a preparation for work, especially in the new organisations and occupations, where many of the new skills are more appropriately acquired in the workplace[19]. The second weakness concerns the unintended consequences of the training tax[20].

There is agreement between the employers, unions and the state that the current system is no longer tenable. Efforts are underway to agree on a system that will incorporate two very different objectives. The unions want to see improved opportunities for individuals, especially those in the lower skilled jobs, SMEs and for the unemployed. Employers want a system that enhances work-based skills. What is distinctive is that the government leaves it to the employers and unions to come up with a solution – which takes time.

The German Approach

This uses the market to deliver skills but within the context of a highly regulated occupational labour market based on the apprenticeship system. The apprenticeship system has been established through the joint regulation of the state, employers and unions and is underpinned by the legal system. This provides a period of a three/four year apprenticeship for two thirds of young people.[21]

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[19] Interview with Alain Dumont, Director of Education and Training, MEDEF, 21 March 2001.

[20] There are three main areas where the consequences of the tax have proved problematic. The first is that it is used only for formal training courses, either outside the firm or in a specialised training centre. A second unintended consequence is that it has encouraged a mentality among SME employers that once they have paid the levy they have fulfilled their obligations to train. They therefore feel relieved of any obligation to undertake training and in this way the tax actively discourages training in SMEs [20]. The third consequence is that it has compounded inequalities in access to training, namely that is goes to managers and the better educated (Pery, 2000). While the training it has provided for managers, especially in the softer management skills, is seen as valuable, the tax has not done anything to encourage training among the less skilled employees. Interviews with Alain Dumont, MEDEF and Vincent Merle, Directeur de cabinet de Mme Nicole Pery, Secretaire d'Etat aux Droits des Femes et a la Formation Professionnelle, 21 March, 2001

The challenges of globalisation

The emergence of new occupations and the demand for new skills associated with the new ways of organising production have presented real challenges for the apprenticeship system.

Advantages

The system produces high status for vocational qualifications.[22] An apprenticeship remains the first choice for most of the school leavers. The combination of on-the-job practical training under a qualified Meister and off-the-job theoretical training in college has provided Germany with the highest level of intermediate skills in the advanced countries. Over half the working population in Germany (50.6%) in 1997 had a level 3 qualification as their highest qualification compared with 18% in the UK and 9.2% in Singapore.[23]

Strains in the process of adaptation

The very strength of the German system, namely its institutionally dense framework[24] means that many parties have to be in agreement with any changes and this has resulted in a slow response to the challenges of globalisation.

The Danish Approach

Denmark is characterised by high levels of training and workplace learning - no mean achievement for an economy dominated by SMEs.

The Danish approach to training is characterised by the use of the market within a framework structured by a fairly strong apprenticeship system organised by the employers and unions. One of the main reasons for the strong commitment of employers and trade unions to training is the unique characteristics of Danish enterprises. In Denmark, an enterprise consists of a number of mini-enterprises and within each of these mini-enterprises '*a skilled worker, with the support of semi-skilled workers, integrates, plans, programmes, sets operations, engages in maintenance and introduces innovations into the workplace*'.[25] These skilled workers have considerable power and autonomy over their workplace, which in contrast to many other countries, reduces the need for administrators and technicians. It is argued that this is one of the reasons why Danish enterprises are so competitive. Unlike Germany, the Danes also have a tradition of continuing adult and vocational training on which the government is building a national system of lifelong learning. Underpinning the Danish system is a high degree of trust between unions and employers.

The Challenges of globalisation

The Danish apprenticeship system has been supplemented by a form of alternance training (alternating periods of training in the workplace and in the school) to ensure training for all young people.[26] This system of initial training was reformed in 2001 to create a more learner centred, interdisciplinary system focused more on making the best use of workplace learning. The aim was to move from a system based on qualifications to competence and from teaching to learning.[27]

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[21] Crouch C. et al, *Are Skills the Answer?* Oxford 1999; P. D. Culpepper 'The Future of the High-Skill equilibrium in Germany' in *Oxford Review of Economic Policy* 1999; Brown et al, op. cit..

[22] Streeck, W., 'Lean Production in the German Automobile Industry: A Test Case for Convergence Theory', in S. Berger and R. Doer (eds) *National Diversity and Global Capitalism* 1996.

[23] Brown et al, op. cit.

[24] Streeck, W. 'Skills and the limits of neo-liberalism: the enterprise of the future as a place of learning' *Work, Employment and Society 1987.*

[25] CEDEFOP, *The role of the company in generating skills – the learning effects of work organisation,* Denmark country study 1996.

The continuing vocational training system includes workplace development plans, negotiated between the union and the employer for each employee. These cover 80% of large establishments and 50% of small establishments. Workers have access to a range of short courses from colleges or Labour Market Training Centres, for example for IT skills. They also have access to longer courses, which can be up to two years in length. Employees are also entitled to a one-year sabbatical provided that they are replaced by an unemployed person.[28]

Advantages

The involvement of the social partners at the establishment level makes it responsive to changes in work organisations, the workers are quick to respond to the training needs required for new technology and working practices. At a national level, the success of the government in developing continuing adult education and training, represents an important means of tackling the problem of how to encourage SME employees to engage in further development.[29]

Strains in the process of adaptation

The system is adapting to the demands for the new skills but the influence of skilled workers in the system makes it difficult to further improve the system by opening up opportunities for the unskilled and semi-skilled. Any attempt to certify work-based competencies threatens the dominance of the skilled workers by providing access to their ranks for the unskilled and semi-skilled.

Conclusion

The identification of the ways in which different national frameworks make use of the market highlights the consistency in the ways in which other governments have approached the development of their workforce. The Americans use the market, the Singaporeans "shape" the market; the British do not appear fit comfortably into either of these models

This brings us to the question of the transferability of practices. Here we need to distinguish between two levels of transfer, namely the attempt to transfer an overall national framework and attempts to transfer specific policies and practices form one framework to another. As Turbin observes, ".. where transfer does occur and produces some success it usually goes through a process of adaptation and implementation that includes tailoring basic principles to the received environment and then monitoring the process and intervening where appropriate."[30] Transfer can be done but it is not an easy process. What does seem clear is that where the broader institutional frameworks are more compatible then it is easier to transfer specific practices, but even then they require adapting to the new environment.

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[26] Green A. et al *Convergence and Divergence in European Efucation and Training Systems* Institute of Education 1999.

[27] Denmark government, *The Danish System of Vocational Education and Training* 2000.

[28] Ashton et al 2001, op. cit.

[29] Ibid.

[30] Turbin, J. 'Policy Borrowing: Lessons from European Attempts to Transfer Training Practices', *International Journal of Education and Training* 2001.

Annex 10: Devolved Administrations

Wales and Scotland both make their own policy on these issues. We have examined:

- What the points of difference are between their policies and England?
- How far those points are a result of differences in economic structure, culture, skills requirements, population etc?
- Why have Scotland/Wales instituted these policies? How are they working so far?
- Are there lessons for England in the policies adopted by Scotland and Wales?

Some elements of workforce development are UK-wide, e.g. NTOs (although not in all cases) and private provision. There may also be some border issues.

Scotland

The main differences between the Scottish and English systems:

- there is considerable divergence between qualifications in Scotland and England, as well as from the already well known split between Highers/A-Levels.
- NVQs and SVQs are very similar, as they are based on National Occupational Standards, but have different names and some are slightly different in content.
- Scotland is introducing a new credit-based qualifications framework which does not resemble what is on offer in England. The new Scottish credit qualifications framework will have 12 levels, including higher education qualifications. It will allow individuals to get one type of qualification up to a certain level and, in relevant subjects, then carry those credits over to other qualifications. This will include SVQs.
- This is made considerably easier in Scotland by the fact that they have a single statutory Qualifications Authority for qualifications below degree level, and so most qualifications and credits are quality assured by one central agency. The SQA is primarily an awarding and certificating body. It is also a regulatory body like the QCA (but only for SVQs). The awarding and regulatory functions are separated by statute.
- Qualifications offered by other awarding bodies such as City & Guilds, and more flexible units of learning will all be brought into the framework in due course.
- The system will allow children to begin to build up credits at school, where core skills are also embedded in the curriculum.
- Scotland is not having its own LSC but is maintaining separate further and higher education funding councils alongside the Enterprise bodies which are responsible for training in Scotland.
- However, skills gaps etc, are similar across England and Scotland and present the same difficulties.
- It is important to recognise the differences between the culture and history and educational traditions of England, Scotland, Wales and Northern Ireland, but also the similarities and the fact that policy which is simply made for one and ignores incompatibilities with the differing systems will fail to have the right impact across the UK. Primarily, it can be confusing for employers and for individuals moving across borders.
- For instance, England refers to key skills, Scotland to core skills. They are very similar but not precisely the same thing. Originally, everyone had core skills but the rest of the UK changed to key skills and Scotland stuck with core skills. There are no qualifications in core skills available in Scotland, but there are key skills qualifications in England.
- There is one level of Modern Apprenticeship in Scotland, 2 in England. In Scotland it has to be taken at Level 3, but can be lower - at the Foundation level - in England.
- HNCs and HNDs are more high profile and widely used in Scotland than in England, where their function is partly being replaced by the Foundation degree, which is not needed in Scotland.

- If they were to rationalise funding, it would be through a merger of further education and higher education funding, or by merging Enterprise Network funding with the FE funding.
- Their ministerial structure is also different. There is an Education department responsible for schools, and an Enterprise and Lifelong Learning Division responsible for FE, HE, skills & employability.
- Scotland combines Highers with vocational qualifications (SCOTVEC National Certificate) in its new National Qualifications system. Simple for schools and colleges to introduce vocational courses and awards.
- SUfl is different from Ufl in England. SUfl is not a provider of training but a broker.
- Scotland is to introduce an all age careers service. This involves bringing together several different companies under the banner of Careers Scotland. It will have a strong link to the Enterprise Network and will focus on skills and employability.
- The Minister for Enterprise and Lifelong Learning has established Future Skills Scotland, which will bring together all the labour market intelligence information and co-ordinate its use and distribution.
- 70% Scottish jobs are in the service sector. 93% Scottish companies employ fewer than 10 people.

Wales

The main policy differences between England and Wales at present are:

- The Training Skills and Careers Policy Division have an expressed aim to offer an entitlement to education or training up to Level 3. This was a recommendation of their Wales Skills Task Force report published in November 2000 and was based on research suggesting that two thirds of jobs would be Level 3 and above in 10 years' time.
- Wales has established a National Council for Education and Training which is responsible for the strategic direction, implementation and funding of all post-16 education and training in Wales, with the exception of higher education. A joint management team has been established with the Higher Education Council to ensure a co-ordinated approach to all funding. Together these organisations are known as ELWa, Education and Learning Wales
- Wales has amalgamated the various information and guidance schemes already in existence into one all age careers service called Careers Wales.
- Wales has removed the upper age limit on Modern Apprenticeships so that apprentices in Wales can complete their training beyond age 25, and introduced a new training programme for adults – the Modern Skills Diploma for Adults

Main economic/structural differences between England and Wales are:

- Wales is much smaller than England: 2.9 million (1.8 million working age) against 50.1m (31m working age).[31]
- Wales experiences some clustering of specialised industries, for instance electronics, and aircraft maintenance. This can result in problems with poaching of staff from small firms to larger firms offering higher salaries. However, it also allows for companies to band together or individually to support training colleges teaching a particular skill (for example Barry College and British Airways Maintenance).
- Wales has a higher illiteracy rate and a lower average level of qualifications than England.
- Young people in Wales often leave the country to go to work either in the SE of England or abroad, where salaries are higher, once they have been trained.
- Wales has a higher percentage of people working in manufacturing than England.

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[31] Government Actuary's Department, Projected Population Statistics for 2001.

Northern Ireland

Northern Ireland's training and funding arrangements and priorities are geared towards the specific needs of the Northern Ireland Programme for Government which incorporates investing in education and skills and securing competitiveness as key priorities in both social and economic terms.

The Northern Ireland economy has performed well in a UK context during the 1990s and this has been the best period for the NI economy since the 1960s. Taking 1990 as the base year, during the 1990s the Northern Ireland economy was the fastest improving of any regional economy in the UK as measured by growth in gross domestic product (GDP), employment growth, and change in the numbers and percentage of the unemployed.

The educational achievements of its young people compare well with the UK average with Northern Ireland boasting the UK's best performance at A Level. Third level enrolments have risen by almost 60% in the last decade and its universities have a world class reputation for teaching and research.

Evidence from the International Adult Literacy Survey shows that the standards of literacy and numeracy are improving within the lower age groups, and that the participation rate in full-time education for 16 and 17 year olds (at over 76%) is much higher than in England. However, some 26% of adults in Northern Ireland have no formal qualifications and the unemployed are twice as likely as those in employment to be at this lowest level.

Northern Ireland has suffered from high unemployment for many decades. Whilst in recent years the unemployment rate has fallen sharply - it has more than halved since the early 1990s, there are still major problems. Northern Ireland has:

- The lowest employment rate of any UK region with only 67% of those of working age being in a job – 8% below the UK average;
- The second highest Jobseeker's Allowance claimant rate of any UK region – 5% of the working population are claiming Jobseeker's Allowance compared to the national average of 3.2%.

More recently in response to a tightening labour market, Northern Ireland has developed arrangements for the identification of current and future skills needs, through a programme of research commissioned by the NI Skills Task Force. The NI Skills Task Force was established in response to our economic development strategy to advise on the demand and supply of skills in the priority areas of IT, Electronic Engineering, Mechanical Engineering, Construction and Tourism and Hospitality, where a shortage of skills has the potential to impede the growth of our economy.

The Department for Employment and Learning (DEL) plays a major role in addressing the skills, productivity and competitiveness challenge and in ensuring a more inclusive society, it has used the research findings from the Skills Task Force work to inform local policies and to target education and training resources to raise skills levels and enhance the quality of education and training in Northern Ireland.

Alongside its main stream provision DEL has developed a number of innovative policies and programmes to match skills with the needs of industry and to ensure sustainable growth in the Northern Ireland economy.

Meeting the Skills Needs of Industry

In response to difficulties the ICT industry is experiencing in recruiting and retaining appropriately qualified staff, a Rapid Advancement Programme was introduced providing specialised training for unemployed university and college graduates from non-IT disciplines to enable them to take up jobs in the industry. A similar type of programme is currently being developed to meet the needs of the Electronics sector.

The Lecturers into Industry programme has been introduced to provide lecturers with opportunities to gain a greater understanding of the changing skills needs of employers and as a result to assist them produce better informed and skilled students.

Greater emphasis has been placed on the role of the Further Education (FE) sector in supporting economic development, widening access to and increasing participation in FE and improving the quality of provision. Specific funding has been earmarked to colleges to provide courses in specified skills areas, support for staff and curriculum development in ICT and to establish local partnerships and increase collaboration between colleges with a view to matching current staffing to areas of highest skills needs. Financial assistance has been provided to colleges in order to:

- Fund an additional 600 fully funded full-time higher education (HE) places at sub degree level across the priority skills areas and an additional 100 places in software engineering.
- Develop innovative ways to recruit and deliver vocational courses at levels 2 and 3 to adult students (19 years of age and over) in the skills areas which are of importance to the regional economy,
- Sharpen the economic focus of the FE sector in line with Strategy 2010, while at the same time driving up standards. Colleges have been invited to bid for recognition as centres of excellence in one or more of the 6 priority skills areas.

DEL is currently looking at innovative ways of developing mathematics and science competencies amongst young people in order to improve recruitment in areas of skills need such as software engineering and electronics. It is supporting an innovative programme called New Step which will provide students aged 18 and over, who currently lack competencies in mathematics and science, with a fast track programme to enhance these competencies, thereby facilitating access to higher level courses.

From September 2001 tuition fees have been abolished for full-time students, aged 19 and over, on vocational FE courses. The objective in abolishing tuition fees is to provide incentives for adults over 19 to re-skill or up-skill, contributing towards the enhancement of skills provision for the regional economy. (Academic courses and courses at Level 4 and above are not included).

The Department of Enterprise, Trade and Investment provides practical advice and financial assistance to companies through its Company Development Programme to help them improve their business performance through the development of their people. The programme has a strong emphasis on management development. Assistance is targeted at helping managing directors and owner/managers particularly, of small businesses to understand and address the training and development needed to achieve their business goals and to develop key skills and raise levels of competence of managers and employees.

BASIC SKILLS

Tackling basic skills is one of DEL's key priorities. DEL has established a Basic Skills Committee and a Basic Skills Unit to respond actively to the problem of low basic skills among a large number of adults. It acts as an advocacy and advisory body to promote access to adult basic education, enhance the competence of adults in the use of IT, improve the quality of provision in basic skills and support the development of basic education wherever it is delivered, including in the workplace.

The Basic Skills Unit has been asked by the Department to provide advice on a number of areas, including standards, curriculum, tests and qualifications for tutors. This advice together with developments in other parts of Great Britain and the Republic of Ireland will form the basis of the NI Basic Skills Strategy.

In recognition of the scale of basic skills problems DEL already has provided premium funding to address basic skills needs. It has established a fund to encourage collaboration between colleges and the business and community sectors, to promote and support innovation in approaches to the delivery of provision, and in bringing into education and training those who have not been engaged previously.

EMPLOYABILITY

The Northern Ireland Executive is already funding a number of actions to address unemployment. For example, the New Deals provide help for unemployed people, while the Executive's company assistance strategy targets those geographical areas of greatest social and economic disadvantage.

DEL has introduced an enhanced range of measures to assist unemployed people back to work. Worktrack is a temporary employment programme for long-term unemployed adults who do not fall within the New Deal criteria. The programme focuses on the individual needs of clients and is aimed at getting them into sustainable employment at the earliest opportunity. It is aimed at both benefit and non benefit recipients and would be of particular assistance to groups such as women returners who have been away from the workplace.

The recently introduced Focus for Work programme combines existing programmes such as Bridge to Employment, Worktrack and New Deal, together with a complete new range of provision which includes Employment Review Interviews, an extended network of JobClubs and a new programme called Training for Work. It seeks to match the intensity of the intervention with the established need of the individual to provide clients with a broader range of help and prevent the drift into longer-term unemployment.

However the Programme for Government recognised that to address unemployment, in particular long-term unemployment, and social exclusion issues appropriately, there was a need for a cross-Departmental approach. It committed the Executive to establish a Task Force on Employability and Long-Term Unemployment to focus on factors that make people employable: not just knowledge, skills and motivation, but also considerations such as childcare and readiness or ability to travel to find work.

The Task Force has been formed under the chairmanship of the Minister and includes senior representatives from across NI Government Departments, the Northern Ireland Office and the Equality Commission for NI. The aim of the Task Force is to analyse the factors which make individuals and groups employable and the obstacles faced by those who are economically inactive, seek views on how these may be overcome and prepare an Action Plan which integrates actions across Government Departments and Agencies. Work is well underway and is on target to be completed by March 2002.

Annex 11: Workforce Development Initiatives

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Current Initiatives				
NVQs		FE Colleges, QCA, NTOs involved in assessment and certification.		NVQs are designed to measure workplace competencies and should therefore be directly relevant to business needs. They offer the opportunity to recognise and reward staff for their skills and knowledge and to target scarce training and development resources at identified needs.
NTO Network Review	Announcement made 16/10/01 by Secretary of State at the Employer Skills Summit.	DfES	DfES provides £10m of funding per year for NTOs. An additional £45m of funding will be made available over the next 3 years to aid the transition to the new network.	The aim of the review was to create a smaller stronger NTO network and to engage employers in sector issues. The Secretary of State announced the creation of Sector Skills Councils (SSCs). These will be new employer led bodies which will have an authorative voice and influence on setting Government sector skills policy. A small number of trailblazer SSCs will be announced in mid December and the first full SSCs will come on stream in April 2002. Government recognition of NTOs will cease on 31st March 2002.
Centres of Vocational Excellence	In November 2000, the Secretary of State for Education and Employment announced that by 2003/2004, one in two FECs will have a Centre of Vocational Excellence.	DfES and LSC	The LSC will provide £100m over three years to help colleges develop Centres of Vocational Excellence.	Centres of Vocational Excellence will develop new, and enhance existing, excellent vocational provision that is focused on meeting the skills needs of employers, nationally, sectorally, regionally and locally.

Name	**Dates**	**Who's Responsible**	**Funding, Participation and Expenditure**	**Short Description**
Technical Certificates	QCA aim to have technical certificates identified for all apprenticeship frameworks by autumn 2001, available for use in all frameworks from spring 2002.	The first 6 NTOs to submit project bids to develop technical certificates include EMTA, SPRITO, CfA, and HtF. Also, AoC, Association of Learning Providers and LSDA working with expert panels to develop course outlines and good practice.		4 main criteria: match the knowledge requirements of at least one NVQ; be capable of delivery through a taught programme of off the job learning; permit a structured approach to teaching and assessment of knowledge requirements; and include an element of citizenship in an employment context.
Vocational GCSEs	The aim is to make them available from 2002.	Schools offering traditional GCSEs will work closely with FE colleges. QCA.	The government is putting in an extra £18m to support the development to provide training, support, materials and 40000 vocational placements in FE and work places.	They are available in 8 subjects, Art and Design, Business, Engineering, Health and Social Care, ICT, Leisure and tourism, Manufacturing, Science. The vision imagines 14+ year olds able to choose predominantly vocational GCSEs or mix them with traditional GCSEs.
National Adult Basic Skills Strategy	March 2001	Adult Basic Skills Strategy Unit, DfES	£241m spent on provision in 2000-01. Increased to £403 m by 2003-04	Aim is that 750,000 adults will improve their literacy and numeracy by 2004, but in longer term, to make sure that England has one of the best adult literacy and numeracy rates in the world.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Adult and Community Learning Fund	Sept 1998 to March 2002, when the Fund ceases.	DfES	Total budget £20m over 3.5 years. Budget for final year 2001-02 is £5.1m.	This initiative was part of the Government's strategy to widen participation in learning and improve standards of basic skills. The Fund delivers this through community-based activities. It is aimed at 'hard to reach' adults who would not normally use traditional education institutions and who are often marginalised from society and the labour market. The Fund was made available through five bidding rounds and applied to England only. Bidding for the final round closed 30.09/00
New Deal for Young People (18-24 year olds)	Introduced nationally April 1998. To date has helped nearly 300,000 young people to find work.	DWP	Total spend of £1.16bn from 1997-2001. To date has helped nearly 300,000 young people into jobs.	Personal Advisers work with each young person to help and support them in their search for work and to help them to identify the best way to improve their employability. New Deal options also provide young people with a range of ways to improve their skills, work experience and chances of finding work. Mandatory programme for young people aged 18-24 who have claimed Jobseeker's Allowance continuously for 6 months
New Deal for people aged 25 and over	Introduced nationally in June 1998. Programme enhanced in April 2000 to inject more pace and purpose and then significantly extended and further enhanced in April 2001.	DWP	Total spend of £260 million from 1998-2001. From April 2001, planned expenditure is around £300 million per full year. To date has helped over 70,700 people into jobs.	Objective is to help long-term unemployed people aged 25 and over to move quickly into work and providing a fuller investment in employability for those who need it. Enhanced programme now includes a gateway period, followed by a flexible, individually tailored full-time activity period, and a follow-through period of intensive job search. Up until March 2001, mandatory for those who had claimed JSA continuously for 24 months. From April 2001, participation in initial Gateway phase, is mandatory for all those claiming JSA 18 when IT allows will be 18 out of 21 months. Participation in all phases is mandatory for those aged 25-49

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
New Deal 50 plus	Available nationwide from April 2000.	DWP	Outturn for 2000-2001 is £55.7m of which £42.8m is for ECs and the Training Grant. The budget allocation for 2001-02 is £81.1m of which £65.5m is for ECs. In the first 14 months of its national operation New Deal 50 plus has helped over 38,000 people off benefits and into work.	Aims to help older jobseekers move off benefits and into employment. New Deal 50 plus includes a cash Employment Credit for those people entering employment with an income up to £15,000 a year. It also offers employment guidance, jobsearch support, and an in-work training grant of up to £750. The package applies to full and part-time work, and self-employment. Voluntary programme for all people and their dependent partners aged over 50 who have been claiming JSA, Incapacity Benefit (IB), Severe Disablement Allowance (SDA) and Income Support (IS) for more than six months. Those signing on for National Insurance and Incapacity Benefit Credits for six months or more also qualify. Also eligible are those in receipt of Invalid Care Allowance and from April the New Bereavement Allowance for six months on making a successful claim for a qualifying benefit (set out above
New Deal for Lone Parents	Introduced nationally October 1998.	DWP	Planning expenditure of £100m on NDLP this year. To date has helped over 92,700 lone parents into work.	Offers a comprehensive package of opportunities to help lone parents move into wok. Offers practical support with jobsearch, training, childcare and in-work benefits. Can help with the costs associated with approved training such as childcare, course fees and equipment costs. Voluntary programme available to all lone parents on Income Support. Starting in Autumn 2001 programme will gradually be extended to all lone parents not working or working fewer than 16 hours.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
New Deal for Partners	Launched in April 1999. Eligibility extended from April 2001.	DWP	Expenditure till end 1999-2000: Fixed and one-off costs £1.5m Running and programme costs £4.3m. Participation – 5407, Numbers into jobs 879	NDP provides help, and support to those partners of working age benefit recipients who are looking for work. This is provided through a personal adviser and includes advice on in-work benefits and information on and (in some cases financial support for) local childcare, where appropriate. Voluntary for partners of claimants of JSA, IS, IB, SDA and Invalid Care Allowance when the claim reaches the 6-month stage.
New Deal for Disabled People	Introduced autumn 1998. From July 2001, the New Deal for Disabled People will be extended with the implementation of a national network of innovative Job Brokers.	DWP	[Currently not available.]	The programme aims to test out innovative ways of helping people on incapacity benefits to move out of economic activity and into sustainable employment. Voluntary programme open to people claiming incapacity benefits, including IB, SDA and IS by virtue of incapacity

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Right toTime off for Study or Training (TfST)	Legislation contained in Part III of the Teaching and Higher Education Act 1998, which amends the Employment Rights Act 1996.	Delivery of Advice and Guidance – Connexions. Delivery of learning provision – LSC.	Delivered through LSC funding to cover 16-19 entitlement £0.2m for ACAS/Tribunals held separately.	Some of the key features of the entitlement are: 16-17 year old employees not yet qualified to level 2 entitled to take reasonable paid time-off to study or train towards an approved qualification, study/training can be on the job or off the job – the State contributes to the cost of the learning.
Education Maintenance Allowances (EMAs)	Initial pilots launched in 15 LEA areas in September 1999. Extended to a further 41 areas in September 2000.	Administered be LEAs	Now the coverage is nearly 30% of 16-19 year olds.	EMAs aim to encourage more young people to stay on and achieve in education after compulsory education, by providing support through a weekly means-tested payment and termly and achievement bonuses. The young people only receive their weekly payment if they adhere to their 'Learning Agreement'. 8 different variants are being piloted including one looking at providing support with transport costs. Analysis of the impact on the first cohort affected shows an average participation gain amongst eligible young people of around 5 percentage points.
Foundation Degrees		The first 69 courses came on stream in Autumn 2001. They are available at almost 100 35 HEIs and FE colleges with employer and NTO support.	Government puts in £10m over 2 years to get first FD courses under way. Just under 4000 places on offer from September 2001.	The range of courses includes tourism and leisure, the creative industries, early years education, the IT sector and chemical technology. Foundation Degrees will to contribute to government goal of 50% of 18-30 year olds to enter HE by 2010.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Action Teams for Jobs (Area-based voluntary programme for all jobless people of working age whatever, if any, benefit they claim in employment-deprived areas).	Initial one-year programme started in 2000, extended to March 2004 in 2001 Budget. By January 2002, the number of Action Teams will have been expanded from 40 to 63.	DWP	Action Teams first year funding £45.5m; £120m extension of Action Teams to end of CSR 2004. Three Teams started end June 2000, 37 in mid-October. By end May 2001 had engaged over 22,000 clients and helped 7,948 into jobs.	Action Teams are outreach based in the communities they serve. Use of funds very flexible to break down the barriers to work. Help can include anything from Tesco vouchers to bridge the gap between benefit and the first wage to customised training for an employer. Aim for sustained employment for the hardest to help clients.
Career Development Loans	Launched in 1988.	DfES and four High Street Banks, which include, Barclays, Clydesdale, Royal Bank of Scotland and Co-op.	£12m in 2001/2002 150,000 taken out by March 2001. £487m borrowed by trainees. 2000/2001 - 18,000 loans average loan - £3,760 (2000/01)	Aim to encourage people to take responsibility for advancing their own careers by giving them initial financial help to pay for vocational training.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
National Framework of Individual Learning Accounts	Launched September 2000. Withdrawn 7 December 2001	Administered by Capita Business Services Ltd	£150m for £150 incentive for first million learners (exhausted by end July 2001). £46.6m, £71.9m, £71.1m CSR for 20% and 80% discounts + infrastructure costs	ILAs are designed to enable account holders to benefit from a range of discounts and incentives payable on the cost of training and development, encouraging individuals and giving them the power to invest and take responsibility for their own learning.
Advanced Modern Apprenticeships (formerly Modern Apprenticeships)	Target of getting 320,000 by 2003/4	NTOs and TECs have developed a series of occupational training frameworks, which lead to NVQ Level 3 or above qualification.	Government putting in an additional £180m over 3 years and a new standards fund being introduced for Apprenticeships worth £15m in 2002/3 and £25m in 2003/4.	An Apprentice will: Be employed from day one of their training, train to at least NVQ level 3 or 4 in their chosen occupation, take up to 3 years to complete the apprenticeship, gain high level technical and supervisory skills, develop a wide range of personal effectiveness key skills.
Foundation Modern Apprenticeships (formerly National Traineeships)		As AMA above but target qualification is at NVQ Level 2.		An Apprentice will: take up to two years to complete an Apprenticeship, will receive a training allowance or a wage from his or her employer, can progress to an Advanced Modern Apprenticeship to increase his or her skills and qualifications, may be offered a contract of employment during the training period, can apply for a, apprenticeship up to the age of 24, will develop a wide range of personal effectiveness key skills in order to progress in a career.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Adult Development Rate – NMW	The Government has announced that it has accepted the Low Pay Commission's recommendation to increase the National Minimum Wage's main rate from £3.70 to £4.10 an hour in October 2001. It will then increase to £4.20 in October 2002 subject to economic conditions at the time. The Government has also accepted the LPC's recommendation on the development rate for 18-21 year olds. This will increase to £3.50 an hour on 1 October this year and to £3.60 from 1 October 2002 subject to economic conditions at the time.	DTI		The Development Rate covers not only those aged 18-21 inclusive, but also workers who are aged 22 years and over who are starting a new job with a new employer and doing accredited training. The purpose of the Adult Development Rate is to ensure that the NMW does not price untrained workers out of the labour market. It does this by allowing employers to pay their workers less than the full rate for the first six months, provided that they are training their workers at the same time.
National Learning Targets		LSC		For 19 year olds, target is for 85% of people to have L2 qualification. For 21 year olds, target is for 60% with L3 qualification.
Council for Excellence in Management and Leadership.		DfES, DTI	Council has a budget of £1m and its part funded by the DTI.	The aim of this initiative is to ensure that the UK is able to develop managers and leaders of the future to match the best in the world.
Small Firms Enterprise Development Initiative.	Launched in April 1996.	DfES and SBS		SFEDI is the Standard Setting Body responsible for occupational standards and for promoting training and development in the small firms area.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Small Firms Training Loans (SFTLs)	Launched in 1994	DfES and eight high street banks: Bank of Scotland, Barclays, Clydesdale, Co-operative, HSBC, Lloyds TSB, NatWest and Royal Bank of Scotland.	£0.6m in 2001/2002 Since the scheme began in 1994: • 574 loans taken out by July 2001 • £3,761,927 borrowed by small firms • average loan - £6,554.	The scheme provides assistance to small firms in developing and financing their training plans through borrowing, by offering loans, which include a repayment holiday and preferential rates of interest. The intention is that this will overcome the resistance of many small businesses to invest in training.
Connexions	First 12 phase one areas began in April 2001, 4 more due to go live in September if business plans approved. Rollout in remaining 29 phase 2 areas during 2002-03. Connexions Partnerships geographically linked to the 47 Learning & Skills Council areas.	The Connexions Service National Unit is based in DfES, but Connexions is a cross-Whitehall initiative.	The funding, amounting to £420 million at the end of 2002-03, is £177 million more than the careers service currently receives.	It is an information and guidance service for young people aged 13-19. It is a universal service for all young people, although resources will be targeted at the hardest to help Future plans include a Connexions Direct (a telephone and website information and guidance service). Also a Connexions Card to be launched in autumn 2001, which will offer many advantages, namely discounts etc.
Union Learning Fund	Launched in 1998	DfES	DfES funding over period 1998-2002 = £12.5m. An additional £24m has been allocated for next 3 years, £6m of which for basic skills projects.	The Union Learning Fund is a source of funding to help trade unions use their influence with employers, employees and others to encourage greater take up of learning at work, and boost their capacity as learning organisations.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Learning Gateway (to Connexions/careers Services and local LSCs	Launched in 1999	Connexions/Careers Services responsible for delivering the 'front end' of the Learning Gateway (outreach, assessment, guidance etc) and local LSCs responsible for delivering its Life Skills element.	'Front end' funding subsumes within Connexions/Careers Services budgets. £61m in LSC budget for 2001-02 for Life Skills.	The Learning Gateway makes contact with young people on their own terms. It finds ways to motivate young people who have had a negative experience of school and who are put off by traditional learning. A key priority for the Learning Gateway during 2001/2002 is to reduce the 10% of 16-18 year olds not in education, training or employment with training to enter the learning system and labour market.
Information, Advice and Guidance (IAG) Partnerships	Launched in 1999	DfES	The government will provide £133m over three years to deliver locally based information, advice and guidance services to adults. £23m has been allocated to the LSC in 2001-02 to fund 75 local IAG partnerships, drawing together relevant organisations at a local level. These include colleges, universities, careers services and a range of organisations from the voluntary and community sectors.	The main features of the local IAG policy are that: -local services should be free at the point of entry; -the initial priority is the provision of good quality and accessible information and advice services; -particular attention is being given to the engagement of socially disadvantaged groups; -services are quality assured through the Guidance Accreditation Board, a national body established with support from the Government.

Name	**Dates**	**Who's Responsible**	**Funding, Participation and Expenditure**	**Short Description**
Ufl/learndirect	National rollout autumn 2000.	Ufl Limited	£66m to support the operation of Ufl plus £10.25m for **learndirect** advice and guidance service in 2001/2002	An e-learning initiative. This takes forward the Government's vision of a University for Industry by stimulating and meeting demand for lifelong learning. Ufl provides high quality learning opportunities ranging from basic skills and business management and uses ICT to encourage innovative and cost effective ways of learning.
UK online	Launched in September 2000	DfES, e-Envoy's office, DTI.		Part of big government drive to open up Internet access. (Private sector partners include Woolworths, Argos, Mothercare, the Sun and the Halifax.)

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Wired up Communities	Initial funding announced April 2000. First pilot area live in October 2000. Six phase 2 communities announced on 16 March 2001. Final evaluation report due April 2002.	DfES	A total of £10 million of Capital Modernisation Fund will be invested in 7 WuC areas by DfES. Local projects apply for revenue streams from a variety of sources including SRB,RPS, New Deal for Communities. Each local community is aiming to build partnerships with the private sector to bring in other support. Partners currently include Ondigital, The Media Trust, Clicks and Links and other local companies. In addition, DfES will manage a £5m contract with the national e-Learning Foundation to facilitate the provision of ICT to 12,000 children in 33 schools in the WuC areas.	The Wired up Communities initiative was set up to test the impact that installing technology directly into people's homes in disadvantaged areas has on their acquisition of skills, attainment, employability and social cohesion. 7 pilots across England will test a variety of technologies and an evaluation report in April 2002 will be used to inform decisions about further rollout. The e-Learning Foundation Wired up Community activity will enable 33 schools in the communities to be wired up through technology such as laptops and electronic whiteboards. This activity will further improve individual access to ICT and develop home-school links.
UK Online for Business	Launched in September 2000, expanded in Opportunity for All White Paper, February 2001	DTI	c.£60 million over three years	Aimed at helping SMEs exploit the business benefits of ICTs
www.worktrain.gov.uk	Launched March 2001. Version 3, including new links to childcare, due for release summer 2001	Worktrain Division, DWP		Instant online access to 800 000 jobs and training across Britain.
UK online centres	6,000 are being set up in local communities by the end of 2002	DfES		The centres are aimed to bring access to ICT and learning in areas where access has been poor.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
People Skill Scoreboards	Launched in late 1990s.	EEF and EMTA collaborated to produce first PSS (1998). DfES and DTI agreed to work with NTOs and Trade Associations to pilot the approach in other sectors.		PSS is a series of tables showing the extent of employers' investment in training and people skills development.
Investors in People	Launched in 1991.	LSC – National learning targets and delivery of support to employers	IiP UK: £1m-£2m 2000/2001. LSC: £48.2m 2001-02.	IiP is a national quality standard, which sets a level of good practice for improving organisational performance through developing people.
Group Training Associations and other Employer Collaborations	GTAs were originally set up in 1960s through the Industrial Training Boards. An evaluation is ongoing of the Employer Learning Networks Challenge fund, due to report in March 2002. A further evaluation of the wider range of employer collaborations, including GTAs, is due to report in Summer 2002	DfES	£8 million?	(A Contribution is required here from YPPD on their plans to spend this money via GTAs) Most GTAs operate as employer-led training providers or managing agents with strong links to industry, rather than as consortia of small firms sharing training resources Decisions will be made on the future strategy in this area following on from completion of the evaluations.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Employment Zones	985 started in April 2000.	DWP	£112m for 48 000 clients over 2 years. Recruitment has been extended for a further 12 months which will draw in another 30 000 clients at a cost of £81m. The schemes have placed 6000 people in work, at the same cost as New Deal about £4000 per job. Also, £32m was to be put in to extend zones for a further 2 years.	Employment Zones aim to provide new and innovative solutions to help long term unemployed people into work. There are 15 zones, all but one are run by private sector led partnerships. The zones have great flexibility over how they spend funds but payment is heavily by results.
Skills Development Fund	1999-2000 was the first year of operation.	RDAs	Worth £49m in 2000/2001.	The Skills Development Fund (SDF) enables RDAs to fund projects to help deliver the skills priorities set out in their Regional Strategies. Projects are mounted with a variety of partners and cover such issues as basic skills, management skills and graduate retention.
Industry Training Boards (Construction Industry Training Board and Engineering Construction Industry Training Board)	Construction Industry Training Board - set up in 1964; Engineering Construction Industry Training Board - set up in 1991	DfES	They are funded by a statutory levy imposed annually on employers in the industry they cover	The Boards were set up to ensure an adequate supply of properly trained people in their industry; to secure an improvement in the quality and efficiency of training in that industry and to share the cost of training more evenly between firms.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Centres for Excellence in Enterprise	Mentioned in Enterprise, Skills and Innovation White Paper, March 2001.	DTI	DTI providing a fund of £25m to establish the centres.	This is done through the Science Enterprise Challenge to drive forward awareness of enterprise and business.
University Innovation Centres and University Technology Institutes	Mentioned in Enterprise, Skills and Innovation White Paper, March 2001.	DTI (University Innovation Centres), DfES (Technology Institutes)		This is to form a major new network based in every region to boost the level of research and development, innovation and technology transfer and to provide regions with the skills in ICT and high skills.
Higher Education Reach-Out to Business and the Community Fund.	Mentioned in the Knowledge-Based Economy White Paper, March 2001.	DTI, DfES and HEFCE	The three departments are providing £20m per year.	The aim is to create a single gateway for business to access the resources of groups of HEIs, and increase interaction between employers and employees, HEI staff and students.
Higher Education Innovation Fund	Following the 2000 Spending Review the Higher Education Innovation Fund (HEIF) was announced, in order to continue and develop the work of HEROBC.	DTI/OST, HEFCE, DfES	Worth £140m over 3 years. (Incorporates the existing HEROBC fund.) £80m will be allocated by HEIF.	HEIF will continue to provide funding to help HEIs enhance organisational and structural arrangements for implementing their strategic aims in this area.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Enterprise Zones	11 introduced in Great Britain in 1981.			A designated zone in a depressed, generally inner-urban area, in which firms located in the zone are given favourable tax concessions and freedom from a number of planning constraints. Firms were granted a ten-year exemption from rates and a 100 per cent taxation allowance on new building. The UK government announced in 1989 that no further enterprise zones would be created, by which time twenty-seven had been established.
Former Initiatives				
Skills Choice	Launched in 1993. Two year programme 1993 – 1995	TECs	£20m over two years.	It gave credits to individuals, mainly employees, to allow them to buy guidance and access NVQ assessment services of their choice.
Employee Development Schemes	Interest grew during the early to mid-1990s	TECs and now LSC.	LSC Local Initiative Fund or Workforce Development Budget. No set amount for individual funding – at local TEC/LSC discretion.	Offer employees the opportunities to start or continue learning, with employers or TECs offering funding to cover the cost of learning undertaken in their own time.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Skills for Small Businesses Scheme	Launched in April 1995.		£9 m in 1995/96 £27m in 1996/97. £24 m in 1997/98 £3 m in 1998/99	Aimed to overcome the some of the difficulties small companies face in providing training.
Possible Future Initiatives				
Transferable Training Loans (TTLs)	Announced in February 2000. Design Phase is ongoing.	DfES	DfEE offered pump priming funding to support feasibility studies and setting up costs but TTLs were expected to be self-financing via industry and the banks working together.	Employers would receive loans from banks to train individual employees. Payment of interest would start at once with repayment of capital starting on completion of the qualification. If a trainee leaves to join another employer in the sector the new employer takes over payment of the loan. This transferability addresses the poaching issue. A number of sectors have considered them via their relevant NTO but, so far, no sector has piloted the loans. Decisions on future wider implementation would only be taken following on from successful completion of a pilot.

Name	Dates	Who's Responsible	Funding, Participation and Expenditure	Short Description
Statutory Frameworks for Training	Announced in manifesto June 2001, development phase.	Where both sides of industry in a sector agree the government will help set up a statutory framework for training. DfES officials will work closely with any sector bringing forward proposals for a statutory framework.		There are a wide range of statutory or regulatory interventions which might be used as the basis for a Statutory Framework for Training to address skill needs. Government will only support a statutory framework where there are serious skills problems and where both sides of industry agree it is necessary. The aims are: to increase employer investment in skills; to increase the volume of workforce learning, and to raise the standards of skills in the UK. The Print Sector are the first to submit proposals for a statutory framework and has been invited to set up a joint project group to work with department experts.

ANNEX 12: Further Reading

Title	Subtitle	Author	Organisation	Date
International comparisons of post-16 education and training arrangements				
France: Vocational Training	Progress on training reform			
The Cost to Industry	Basic skills and the UK workforce		ALBSU	1993
Basic Skills and Jobs	A report on the basic skills needed at work		ALBSU/IMS	1993
Invest UK: High-tech Industry: Survey of foreign investors	High-tech Industry: Survey of foreign investors		Arthur Andersen	2001 Janua
Various Information			Basic Skills Agency	2001
Public Sector public potential	Improving the basic skills of public sector workers		Basic Skills Agency	2000 June
Basic Skills are Union Business			Basic Skills Agency/TUC	2000 June
New Economy: How working Americans can take control			Blueprint Magazine	2000
Modern Apprenticeships	BCC Response		British Chambers of Commerce	2000 Septe
BCC Budget Discussion Paper	Small Firms Survey		British Chambers of Commerce	1998 Octob
News and Policy	Education & Training		British Chambers of Commerce	
News and Policy	TECs-Meeting The Challenge of the Millennium		British Chambers of Commerce	

News and Policy	Submission to Rt Hon David Blunkett MP...	British Chambers of Commerce	
Winning with Integrity - A guide to Measuring and		Business in the Community	2000 Nover
Bringing On Talent in the Civil Service- Marketable Qualifications	Part 1: Background and Introductory Guidance	Cabinet Office	2001 Marcl
Investors in People in Government Departments and Agencies		Cabinet Office	2000 Janua
The Costs and Benefits of Investors in People in the Civil Service		Cabinet Office	1999
A reason for Learning?	Summary Report	Cabinet Office	1998 Decer
A reason for Learning?	Full Report	Cabinet Office	1998 Decer
A New Commitment to Neighbourhood Renewal	National Strategy Action Plan	Cabinet Office, SEU	2001 Janua

Title	Subtitle	Author	Organisation	Date
Learning to Live	Newsletter		Campaign for Learning	2000
Learning to Live	Newsletter		Campaign for Learning	2000 Autum
Annual Report - CfL			Campaign for Learning	2000
attitudes to learning '98	Mori state of the nation survey: summary report		campaign for learning	1998
Making the LSC work: Creating demand 3 and	Time for Learning Time for Parenting 2001 February		Campaign for Learning/ Learning Skills Development Agency	
Scottish Executive's Response to the Consultation Process			Careers Scotland	2001 April
Results of CBI survey of members on Modern Apprenticeships			CBI	2000 May
Fact not fiction	UK training performance		CBI	2000 July
Qualified to compete	Creating a world-class qualifications framework		CBI	1998 Janua
Meaning of training			CBI	1997 Septe
Reasons to be cheerful?	A qualitative study of the use of NVQa and SVQs among CBI member companies		CBI	1997 Augu
European Journal of Vocational Training	No 20		Cedefop	2000
Skills Action Plan 2000	A Workforce Development Plan for Central London		Central London Partnership/Focus	2000
Workforce Development Plan for Central Government - Developing 21st Century Skills	Developing 21st Century Skills		CGNTO	2001 Marc
The change agenda	people management and business performance		CIPD	2001

The Future of Learning for Work	Executive Briefing	CIPD	2001
Success through Learning: The Argument for Strengthening Workplace Learning		CIPD	2000 May
A Challenge to Complacency:Changing attitudes to training		Coopers & Lybrand associates	1985 Nover
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